THE FREEMAN
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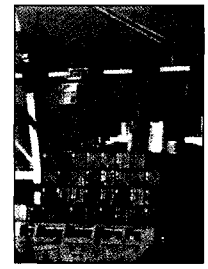
2 *FROM THE PRESIDENT*—There Is No Central Plan for Winning Liberty *by Richard M. Ebeling*

4 *PERSPECTIVE*—Taking Liberties . . . and Properties *by Sheldon Richman*

6 Nationalized Health Care Will Cut Costs? It Just Ain't So! *by Gene Callahan and Robert Murphy*



FEATURES

8 **Econ 101: An Austrian Economist's Dream** *by Arthur E. Foulkes*

10 **Is Social Security Reform Paternalistic?** *by John Attarian*

15 **Regulatory Escalation** *by Robert Carreira*

17 **The Lessons of Another Tolstoy** *by Daniel Hager*

22 **Federal Surveillance: The Threat to Americans' Security** *by James Bovard*

28 **Property and Prosperity: The Vital Link** *by Tibor R. Machan*

32 **Politics Corrupts Money** *by George C. Leef*

35 **Free Trade: Key to Peace and Prosperity** *by William H. Peterson*

37 **Business and Ethics** *by Edmund A. Opitz*

Friedrich List

COLUMNS

13 *THOUGHTS on FREEDOM*—Can You Spot the Billionaire?—*by Donald J. Boudreaux*

20 *PERIPATETICS*—On "Elective Despotism"—*by Sheldon Richman*

30 *OUR ECONOMIC PAST*—From Pennsylvania to Verdun: Friedrich List and the Origins of World War I *by Stephen Davies*

47 *THE PURSUIT OF HAPPINESS*—Why Are Economists So Misunderstood?—*by Russell Roberts*

BOOK REVIEWS

41 **In Denial: Historians, Communism, and Espionage** by John Earl Haynes and Harvey Klehr, reviewed by Richard M. Ebeling; **Economics for Real People: An Introduction to the Austrian School** by Gene Callahan, reviewed by E.C. Pasour, Jr.; **State of the Union: A Century of American Labor** by Nelson Lichtenstein, reviewed by Stanley Greer; **Living It Up: Our Love Affair with Luxury** by James B. Twitchell, reviewed by Tom Welch.

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by Richard M. Ebeling

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There Is No Central Plan for Winning Liberty

People who become enthusiastic supporters of the freedom philosophy often ask how the case for individual liberty, free markets, and constitutionally limited government can be successfully spread across the land. How can it triumph over the prevailing system of governmental paternalism?

In frustration and despair they point out that the interventionist-welfare state has its advocates and indoctrinators everywhere in society. Whether they are in the government-run schools, or on the television news shows and in the pages of newspapers and mass-circulation magazines, or in the pulpits of too many of our churches, or in armies of special-interest groups feeding at the trough of government spending—no matter where we turn the supporters of intrusive, regulating, redistributive government dominate the arena of ideas and the battlefield of politics.

To defeat these forces of political coercion and control, it is sometimes said, we have to devise a strategy and plan of action to which all friends of freedom must apply themselves. In other words, it is implied that the proponents of limited government and the free-market society must design a central plan for winning liberty in which everyone must find his place, like a cog in the machinery advancing the cause of freedom.

In fact, there is not, nor can there be, such a central plan for winning liberty. We need to remember why socialist central planning was unworkable and inevitably bound to fail. During the heyday of collectivism in the first half of the twentieth century, free-market economists like Ludwig von Mises and F. A. Hayek swam against the intellectual and ideology currents of the time and showed that socialism lacked the ability to solve the most fundamental of economic problems. They explained that no matter how well-intentioned, knowledgeable, and wise we might assume the central planners to be, they could never have sufficient information and insight to know all they'd need to know to plan all the economic activities of all the people in any contemporary society.

Hayek, in particular, emphasized that in any society in which there is a division of labor there is, by necessity, a matching division of knowledge. Through such a system of specialization, we respectively become informed, knowledgeable, and expert about, at most, a handful of things, while remaining ignorant about all the other aspects of life on which our social, intellectual, and material well-being depends. The superiority of the free market is that it leaves each individual at liberty to apply his knowledge, abilities, and creativity as he sees fit, yet at the same time succeeds in coordinating all that everyone does through the incentives of profit and loss and the communication network of the competitively generated price system.

How, then, can we ever expect to win liberty through central planning? We would be handicapping all our efforts by subordinat-

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ing them to the knowledge, wisdom, and insight of those who would construct the blueprint to which the rest of us would be required to more or less conform. The goal of establishing the free society can never be achieved through the application of such collectivist methods.

The methodology of winning freedom was a topic to which Leonard Read, the founder of FEE, devoted a lot of his attention over the decades. He reminded us that the one over whom we each have the most influence is oneself. To succeed in this battle of ideas we must begin with a process of self-education. Each of us, to the best of our abilities, must learn and master the meaning of freedom in its various social, economic, and political aspects. This also requires us to clearly comprehend the meaning of collectivism, regardless of whether it is called socialism, communism, fascism, interventionism, welfare-statism, the "middle way," or "liberalism."

Know What You're Talking About

The more and better educated we are in the philosophies of freedom and collectivism, the more and better we can articulate the case for individual liberty and identify any proposal or policy that promulgates political paternalism. Furthermore, the greater our knowledge and power of articulation in these matters, the more we will seem the type of person that others may be interested in listening to and learning from. No one turns to someone who seems not to know what he is talking about, or who cannot persuasively explain the issues involved in any discussion.

Since none of us can become masters of everything, each of us must find that niche where our interest, inclination, and ability give us the greatest comparative advantage. And where, precisely, is that niche? Each person must answer that for himself, sometimes discovering it only through trial and error.

We also need to appreciate that the same argument for freedom will not work equally on every person we talk to. There is no single button to push to get others to see the cogency of the freedom philosophy. Some will find persuasive an argument about the "fundamental rights of man." Others may be more like the man from Missouri, who says "show me." For such a person, a more "utilitarian" argument about the market's ability to "deliver the goods" or handle various "social problems" better than any form of state intervention will carry greater persuasive force. Still others might be more easily reasoned with by historical examples of how free markets and free men have successfully operated in the past, compared to government control and regulation in more contemporary times.

In responding to people in discussion or debate, each of us must find that arena of ideas in which we feel most comfortable and knowledgeable. Likewise, each of us must find those people in our circle of friends, family members, co-workers, and associates who seem most likely to be open and receptive to what we have to say. Surely, no one can know this other than each of us as individuals in our respective corners of society.

Leonard Read also reminded us that no one likes it if it seems that something is being pushed down his throat. Our enthusiasm for making the case for freedom should be tempered with patience and appreciation that for many the full implications of freedom and responsibility take time to absorb and accept.

At the end of the day, if freedom is achieved it will be done by winning over enough people one person at a time through reason, persuasion, and example. It is not an easy task, but it is the only way that is consistent with the principles of freedom we hold so dear. □

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PERSPECTIVE

Taking Liberties . . . and Properties

It's happened again. A local government is condemning a group of homes so the land can be turned over to the developer of a shopping center. Why? The shopping center will rake in more tax revenue than the homes do.

The use of eminent domain to raise money for government is catching on. We've seen it from Connecticut to California. The earliest case I'm aware of is from the early 1980s, when the city of Detroit used its power to take an entire ethnic neighborhood, Poletown, so it could be sold at a bargain rate to General Motors for a Cadillac plant. The courts, the so-called bulwark of our liberties, permit this to take place. (Citizens Fighting Eminent Domain Abuse has an informative website at www.castlecoalition.org/.)

Now it's going on in Alabaster, Alabama, near Birmingham, where seven middle-class homeowners are being told to sell their properties to the developer or face condemnation under which they will be paid less than they are currently being offered. Some of the homeowners think they have been offered too little. Others don't want to sell at any price.

In the eyes of the city's leaders, property rights cannot be allowed to stand in the way of the city politicians' idea of progress. In other words, the homeowners have no rights.

The government doesn't put it that way, but it amounts to the same thing. The city councilmen talk about sacrifice. One said that in our society "there is give and take." Yes, the owners give and non-owners take. That used to be called theft.

Another councilman said, "Sometimes the good of the many has to outweigh the greed [!] of the few." As radio talk-show host Neal Boortz pointed out, Hitler couldn't have put it better.

The power of eminent domain is generally conceded to government, but that is not the same thing as saying it's legitimate. Why should the state be able to take property

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against the owner's will? It's a vestige of the notion that the king owns his realm and the rest of us reside here at his pleasure. These days it has a democratic mantle. It's still theft.

Unfortunately, America's founders did not question this traditional prerogative of sovereignty. But at least they tried to limit it, if weakly, by confining it to the need for "public use" and requiring "just compensation." (See the Fifth Amendment's "takings" clause.)

So far governments still abide by the compensation provision. But in fact there can be no just compensation in a forced sale. The just price is the one a buyer and seller freely agree on. What makes a transaction legitimate is not compensation but consent.

The "public use" constraint has now been thrown to the wind. The framers were thinking of roads, post offices, and other government facilities, the kinds of things that, in theory, all people use or that are used on their behalf. Now the term "public use" has been stretched beyond recognition. If homes are taken for a Wal-Mart-anchored shopping center, it is said (with a straight face) that this is a public use, since the new function will provide jobs and bring in tax revenues that can be used to benefit the public.

In America today the authorities don't need to torture people. They accomplish the same effect by torturing the language.

* * *

Imagine an economics class that focuses on human action. Arthur Foulkes did. You may say he's a dreamer, but he's not the only one.

Social Security is a paternalistic imposition on Americans. But John Attarian finds that many alternatives being offered are more paternalistic.

Injuries on escalators have prompted calls for national safety standards. Robert Carreira shows how off base the regulatory mindset can be.

The horror that was the Soviet Union can be illustrated by the life of a single man. Daniel Hager tells the story of an obscure scientist with a famous name.

The "war on terrorism" has brought the federal government a host of ominous new powers. To those who are concerned about this, officials have appealed for trust. Does the federal law-enforcement record warrant trust? James Bovard takes a look.

It is hard to deny the connection between private property and prosperity. But what precisely is the connection? Tibor Machan has some observations.

While the Supreme Court ponders the constitutionality of the new campaign-finance law, George Leef notes that it not only violates freedom of speech, but also misconstrues the problem. It's not that the wealthy can *buy* political favors, but that the state can *sell* them.

A new publication illustrates how free trade has made people richer everywhere. William Peterson celebrates this latest evidence on behalf of liberty.

Our classic reprint this month is Edmund Opitz's discussion of business ethics.

In the columns department, Richard Ebeling says liberty can't be centrally planned. Donald Boudreaux wonders how to spot a billionaire. Stephen Davies examines the detrimental influence of Friedrich List. Russell Roberts says economists are misunderstood. And Gene Callahan and Robert Murphy, reading the claim that nationalized health care will be efficient, respond, "It Just Ain't So!"

Our book reviewers evaluate volumes on communist spying, economics for ordinary folks, labor, and luxury.

—SHELDON RICHMAN

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JANUARY/FEBRUARY 2004

Nationalized Health Care Will Cut Costs?

It Just Ain't So!

A group called Physicians for a National Health Program (PNHP) is promoting a government insurance plan to cover all Americans. In an August 13, 2003, *Los Angeles Times* report, the group claimed that their "single payer" plan would eliminate $200 billion a year in "administrative, marketing and other private-industry expenses." This would save enough "to provide health care to the 41 million Americans who now lack coverage."

Why then, we wonder, wouldn't similar plans be in order for other consumer goods? Why shouldn't Americans have a nationalized, single-payer plan for, say, food? If we could save $200 billion a year in health care, couldn't we save billions in "private-industry expenses" for victuals? After all, if we visit the PNHP's website (www.pnhp.org/facts/key_features_of_singlepayer.php), we learn that "[p]rofit seeking inevitably distorts care and diverts resources from patients to investors." This argument should be just as applicable to other industries, for example: "profit seeking inevitably distorts feeding and diverts resources from diners to investors." The logical conclusion of the idea is to nationalize the entire economy, saving trillions! We all know how well such ideas worked out in the Soviet Union, Mongolia, Albania, and North Korea.

As with most fallacious arguments in economics, the physicians' concern with one particular magnitude—total health-care expenditures—ignores the *true* criterion of success: the health of Americans. If researchers discovered a very expensive drug that would guarantee an active, 150-year life, it is possible that total health-care expenditures would increase. But such an outcome would hardly be a sign of disaster.

The reasonable person might still conclude that lowering health-care "costs" is an important goal. But we must be careful: one can reduce the satisfaction derived from health care faster than the costs. For instance, the government might reduce expenses by severely restricting consumer choice. By cracking down on "frivolous" product variety, it might indeed be cheaper to provide the basics. But such reasoning fails to appreciate the *function* of advertising and other measures taken to differentiate products. Whether it's health care or computers, the professionals in an industry need the freedom to experiment with new products and techniques, to see which best satisfy consumers. Of course, this freedom goes hand in hand with certain expenditures on "redundant" systems and "counterproductive" advertising, but the only way to encourage innovation is to allow the pioneers to benefit from their discoveries.

In any case, we are confident that we would never see the cost savings these doctors predict. Do they think the Pentagon's single-payer system has kept down the costs of military hardware? The *Times* notes, "The system envisioned . . . would be built on the foundation of the current Medicare program." But the costs of Medicare at the turn of the millennium were running about 700 percent above original estimates.

Plans that lower prices of a good will logically prompt consumers to demand more of it. Those of us who have been caught between insurance plans know that certain "indispensable" visits to the doctor or dentist can often wait until our coverage is restored and somebody *else* has to pay for them. But the PNHP attempts to deny basic economics: "Co-payments and deductibles are . . . unnecessary for cost containment," its website states.

PNHP also denies its plan would restrict

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the freedom of consumers: "Compare [our plan] to today's system, where doctors routinely have to ask an insurance company permission to perform procedures, prescribe certain medications, or run . . . tests."

This, of course, is nonsense: a doctor does not have to ask an insurance company for "permission" to deliver any treatment he recommends. He may have to ask an insurance company if it will *pay* for it. The insurance company could decline, but that in no way prevents the doctor from delivering the treatment.

Do the PNHP doctors really think that all potential treatments will be allowed under their socialized plan? That's impossible: scarcity cannot be repealed by legislative whim; even in health care, tradeoffs are inevitable. Whether they realize it or not, under the physicians' plan doctors will have to ask a *government official* for permission to perform procedures, prescribe medications, or run tests. And under the PNHP plan, it will be a criminal offense to pay for the treatment oneself if coverage is denied. How is that supposed to help patients?

Canadian Waiting Lists

The *Times* cites an associate professor of medicine at Harvard University, Dr. David Himmelstein, who "conceded that Canada's single-payer system has waiting lists for some medical services." He makes it seem as if these are minor matters, only for inconsequential services. But waiting times have been increasing—growing from an average of nine to an average of 16 weeks during the 1990s alone[1]—and people have died while awaiting vital procedures.[2]

Himmelstein goes on to assert, "A single-payer system also would address the mounting billing and paperwork frustrations experienced by physicians." We wonder if he can name any other activity where increased government involvement has *reduced* paperwork?

It is true that under current arrangements, the health-care situation of those who are not insured at work but who do not qualify for Medicare or Medicaid is quite difficult. Those with less wealth have more difficulty acquiring *any* good or service than those with more. But their particularly dire circumstances with regard to health care are almost entirely due to previous government interventions. The government-backed AMA severely restricts the supply of physicians and thus drives up the cost of doctors' services. The special tax status granted to employers' expenses for insurance further increases prices, as do Medicare and Medicaid subsidies.

Our preferred solution is a true free market in health care, one where anyone is permitted to provide any service he wishes, with consumers free to evaluate providers. But, indoctrinated with the notion that it is only government licensing that protects us from quacks, many Americans consider it absurd to argue that everyone should be legally allowed to practice medicine.

However, consumers are fairly adept at assessing suppliers of other products. A butcher who regularly makes his customers ill with food poisoning will soon go bankrupt. Similarly, in a free market an incompetent doctor will soon lose his patients. Undoubtedly, private certification and rating organizations would abound.

Curiously, interventionists believe consumers are (a) too ignorant to identify bad doctors on a free market, but (b) capable of voting for good politicians to improve health care. As PNHP declares, "The public has an *absolute* right to democratically set overall health policies and priorities." (Emphasis added.) Wouldn't it be easier to pick a good doctor?

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1. Sally C. Pipes, "Lessons from the North: Bus Travelers Bring the Reality of Rationed Health Care and Price-Controlled Drugs over the Border," Pacific Research Institute Briefing, October 2002, pp. 2–3.

2. Pacific Research Institute, "False Promise of Single-Payer Health-Care: A Close Look Inside the 'California Health Security Act,'" /www.pacificresearch.org/pub/sab/health/single_prayer/sphealth.html.

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Econ 101: An Austrian Economist's Dream

by Arthur E. Foulkes

On the first day in an economics class the instructor tells us that "resources are scarce," but human "wants are unlimited"—hence the eternal "economic problem." How do we know resources are scarce? We can observe this fact with our senses; we can see that nothing is available in unlimited quantities everywhere and at all times. And how do we know human wants are unlimited? Again, we can observe this fact; as an economics professor of mine once explained, even a billionaire would probably not refuse another million dollars. Thus human wants must be unlimited.

Next our instructors inform us that it is the goal of economics to help society determine how best to allocate its scarce resources to meet the most human wants in the most efficient way. Soon they escort us to the concepts of goods and services, supply and demand, production, utility, and so on. We are introduced to models of human behavior—based on the idea of "maximizing utility"—and soon we are drawing "production possibility frontiers" and demand and supply curves, and writing sophisticated mathematical equations.

But what if economics courses started differently? What if on the first day of the course we were told that economics is about human action and "the regularity of phenomena with regard to the interconnectedness of means and ends."[1] In other words, economics is about the laws of human behavior, which is associated with pursuing goals.

You might say, "I'll take the first definition!" Indeed, economics as the study of allocating tangible goods and services to tangible people with quantifiable "utility" functions seems, at first, much more . . . well . . . tangible. Pretty soon we can forget we are talking about actual human beings with unfathomable minds and values. We can begin to quantify everything and presto, our "economics" has become a kind of applied mathematics.[2] Certainly the math we use can become very advanced and difficult, but at least we are dealing with quantifiable concepts and actual numbers.

But what does this approach tell us about economics itself? It fosters the notion that economists are training to become either social engineers whose jobs involve finding the "optimum" level of consumption, for instance, or fortunetellers calculating next year's demand for apples or the future price of coffee.

Economics in the second sense, on the other hand, leads to the view of the economist as someone working to understand unalterable laws of human economic behavior, the knowledge of which helps us achieve our goals. This approach does not start with empirical observations about reality but rather with the incontestable proposition

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that human beings act purposefully. From there we deduce other incontestable truths about real human behavior.

This deductive approach is the defining characteristic of the Austrian school of economics. It is what separates it from the mainstream neoclassical school, the Keynesian school, monetarism, Marxism, and the others.[3]

The empirical approach associated with mainstream and other economic schools reflects the reigning positivist tradition in virtually every contemporary science. According to this philosophy, nothing is knowable if not observable and quantifiable. Lord Kelvin spoke for the entire tradition when he explained, "When you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind."[4]

But, of course, this very proposition, which claims to make a definite statement about reality and our ability to understand it, cannot itself be expressed in numbers. Therefore by Kelvin's own standards his contention represents "meagre and unsatisfactory" knowledge at best. And this is the problem with the entire empiricist method.[5]

Action Axiom

The Austrian approach, by contrast, begins with the simple proposition that human beings behave purposefully. Yet Austrians do not attempt to "prove" this proposition by observation, experimental testing, intuition, or even "common sense"; rather, the proposition is established as incontestably true because it is self-contradictory to deny it. Any attempt to disprove it would itself be a purposeful action.[6]

How much better economics education would be if, on the first day of Economics 101, students were introduced to this axiom of purposeful action. Then, over the next several days and weeks they could be shown how it implies the economic categories of choice, ends, means, costs, profits, and loss, and further how economic laws are also derived from this starting point, including the law of marginal utility or the law of demand. This would not necessarily make studying economics less difficult than the present highly mathematical approach (because the conceptualization and logical rigor is highly demanding). But it would certainly bring it back in touch with real human behavior and dispel the popular notion that wise economists can reshape the world according to their sophisticated mathematical designs. □

1. Ludwig von Mises, *Human Action*, 4th rev. ed. (San Francisco: Fox & Wilkes, 1996 [1949]), p. 885.

2. This term, "applied mathematics" is often used to describe the methods of mainstream economics. The earliest such use I could find is from Lawrence White, "The Methodology of the Austrian School Economists," rev. ed., Ludwig von Mises Institute, 2003; www.mises.org/mofase/methfinb.pdf.

3. Hans-Herman Hoppe, *Economic Science and the Austrian Method* (Ludwig von Mises Institute, Auburn Ala., 1995) pp. 7–9.

4. Lord William Thomson Kelvin, "Electrical Units of Measurement" in *Popular Lectures and Addresses*, vol. 1 (New York, Macmillan, 1889), pp. 73–74.

5. Mises, *Ultimate Foundations of Economic Science* (Foundation for Economic Education, Irvington-on-Hudson, N.Y., 2002 [1962]), p. 5; Hoppe, pp. 33–34; 51–53.

6. Hoppe, p. 61.

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Is Social Security Reform Paternalistic?

by John Attarian

One great, and valid, complaint about Social Security is that it is paternalistic: it does things for the individual that he should do for himself. In so doing, it commits the twin transgressions of forcing some people to support others and making the beneficiaries the servile dependents of the state.

Accordingly, Social Security privatization has gained attention among critics. Supposedly, privatization will give young people more freedom to make their own decisions about what to do with their own money, instead of merely forcing them to support retired strangers, as they now do under Social Security.

Unfortunately, the devil, as always, is in the details. It turns out on close scrutiny that many reform proposals are in fact more paternalistic and smothering than Social Security itself.

Make no mistake, Social Security is paternalistic in the two senses noted above. First, in providing old-age, survivors, and disability benefits, it usurps the individual's responsibility to make prudent provision for his old age or disability and for the well-being of dependent family members who would suffer financially if he died. In so doing, it encourages individuals to take less thought for the future and to make less provision for it. In short, Social Security encourages them to behave less like prudent, future-conscious, responsible adults and more like feckless, irresponsible, improvident children.

Second, and perhaps more important, its taxes have become so high that they frequently make it difficult or impossible for working Americans of modest incomes to save and invest for their old age. Both Social Security's tax rate and the maximum labor income subject to tax have risen steadily and enormously since Social Security's tax went into effect in 1937. From 1937 to 1949 an employee's Social Security tax rate was 1 percent, and the maximum taxable income was $3,000, making an employee's maximum tax $30. Today, Social Security's Federal Insurance Contribution Act (FICA) tax rate is 6.2 percent each for an employee and his employer, and the self-employed face a tax rate of 12.4 percent. An employee making $20,000 in 1970 paid $327.60 in FICA taxes; a self-employed worker making that amount paid $491.40. Today, an employee earning that amount pays $1,240; his self-employed counterpart pays about $2,480.[1] Obviously, it is becoming increasingly difficult for workers carrying such tax burdens to save for their old age. This means that Social Security's tax is forcing taxpayers into dependence on Social Security for their retirement income.

However, Social Security leaves the taxpayer free to do as he likes with any money

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he has left after he has paid his Social Security tax. He can spend it on current consumption, save it for old age, or save for it some other purpose—and how he saves for old age is up to him. Once he's coughed up his tax, he's out from under Social Security's control.

This is not true, alas, of many reform plans. On the contrary, under these plans the payment of the tax is only the beginning, not the end, of paternalistic control over the individual. Let us examine the relevant features of a few representative proposals.

Some plans would add a small individual retirement account to the existing program. For example, two members of the 1994–1996 Social Security Advisory Council proposed raising the Social Security tax by 1.6 percentage points and investing this money in publicly held individual accounts (IAs). When the worker retires, but no earlier than age 62 (the earliest age at which one can collect Social Security retirement benefits), the account's accumulated funds would be converted into an annuity, which would have a guarantee that some share of the purchase price would be paid.[2]

Two-Tier Systems

Many privatization plans propose dividing the existing Social Security tax into two "tiers." One tier would pay benefits for current retirees; the other would be diverted into mandatory individual retirement accounts, which would be invested in stocks and other financial instruments.

A subgroup of the 1994–1996 Social Security Advisory Council advanced one such plan. Workers over 55 in 1998 would stay in the current Social Security program, which the two-tier system would gradually replace. All workers under 55 in 1998 would have their tax split into Tier I (7.4 percent of taxable payroll) to pay a flat Social Security benefit and Tier II (5 percent of taxable payroll) to be deposited into privately held Personal Security Accounts (PSAs).[3]

Stanford University economist John Shoven propounded a similar plan, which would entail putting 5 percent of taxable payroll into individual accounts, through mandatory individual contributions of 2.5 percent of payroll, matched dollar for dollar with Social Security taxes. When the worker retired, half the money in the account would be converted to an annuity.[4]

Chile introduced a more radical reform in 1981 to replace its social security system. A worker could choose to participate in a new program in which the employer deposits 10 percent of the worker's wages each month into an individually owned Pension Savings Account, to which the worker may contribute an additional 10 percent of his wages. He can choose from among a dozen government-approved investment companies to manage the account. On retirement the worker can use the money in his account to buy an annuity, or leave it in the account and make regular withdrawals.[5]

Social Security analysts Peter Ferrara and Michael Tanner of the Cato Institute have expounded a similar plan. Workers could choose to leave Social Security and enter a new system under which the worker and employer would each put 5 percentage points of the Social Security tax into an individual investment account. The worker "would be required to choose from among approved private investment companies" to manage his account. On retirement the worker, as in Chile, could make regular withdrawals, buy an annuity, or both.[6]

Far from being advances, these reform plans are replete with paternalism. One cannot help but think of a mother fussing over a little boy.

To begin with, every one of them entails forced saving through taxes—either a portion of the existing Social Security tax or some new additional tax. Mommy forces you to put money into a piggy bank, presumably on the assumption that you're too stupid or irresponsible to decide to do it on your own, that left to yourself you'd buy candy bars and comic books. What if you don't want to be forced to save? Shut up and drop your nickel in the slot, Billy. Mommy knows best.

Next, some plans restrict how the money in the accounts can be invested. Under the IA

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plan, "Individuals would have constrained investment choices" for the money, ranging from a portfolio of bond-indexed funds to equity-indexed funds.[7] (Want to buy numismatic coins instead? Too bad. One can almost hear Mommy now: "No, no, Billy, you don't want those silly old coins; you want some nice, sensible stocks and bonds.") The Ferrara-Tanner plan requires that some of the money in the account "would have to be used" to buy private insurance paying survivors and disability benefits at least as generous as Social Security's.[8] So once your nickel is in your piggy bank, Mommy makes rules on how it's spent—for your own good, of course.

Finally, many plans constrain the disposition of the money on retirement. Under all the IA plans, individuals can start collecting their money only at retirement, not before. To its credit, the PSA plan does not require annuitization, thus giving the individual somewhat more freedom of choice than the IA proposal does. The IA plan mandates annuitizing the account money at retirement because "It will be very hard for these workers, upon retirement, to determine how much money they will need to provide for their very old age, in the face of inflation and many other uncertainties. . . . Some restrictions on the potential overspending of the newly-retired seem to us sensible; some annuitization important." This "protects people against the financial risk of living a very long life."[9] Similarly, Shoven's plan mandates annuitizing half the money in the account, in case "some people would blow all of their tier-two accumulations" and end up "below the poverty line."[10] Mommy knows best.

Restricted Withdrawal

The Ferrara-Tanner plan restricts withdrawals from accounts during employment and allows only annuitization or periodic withdrawals from the account at retirement, or both. If periodic withdrawals are chosen, they are limited "so the retiree could not use up all the funds early and then be left without retirement support."[11]

The state, then, would force you to save your own money, tell you how you could save it, and decide when you could get it back, how much, how often, and in what form. This is clearly a far messier, more meddlesome paternalism than Social Security's straightforward redistribution. The more statist plans, such as the IA plan, tack this new paternalism onto the existing paternalism of Social Security, making the total paternalism greater. The more libertarian reforms, such as the PSA, Shoven, and Ferrara-Tanner plans, merely replace one species of paternalism with another.

Have we forgotten Alexis de Tocqueville's prescient warning about "democratic despotism" and smothering paternalism? The government, Tocqueville wrote, becomes "an immense and tutelary power," taking it upon itself to watch over its people's fate, thus keeping them in "perpetual childhood." □

1. *2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, pp. 34–35.
2. *Report of the 1994–1996 Advisory Council on Social Security*, 2 vols., 1997, vol. I: *Findings and Recommendations*, pp. 28–29.
3. Ibid., pp. 30–35.
4. John B. Shoven, "Two Tiers are Better than One," in Henry J. Aaron and John B. Shoven, *Should the United States Privatize Social Security?* ed. Benjamin M. Friedman (Cambridge, Mass., and London: MIT Press, 1999), pp. 30–47.
5. Peter J. Ferrara and Michael Tanner, *A New Deal for Social Security* (Washington, D.C.: Cato Institute, 1998), pp. 133–34.
6. Ibid., pp. 168–71.
7. Report of the 1994–1996 Advisory Council on Social Security, vol. I, p. 28.
8. Ferrara and Tanner, p. 169.
9. *Report of the 1994–1996 Advisory Council on Social Security*, vol. I, pp. 28, 30, 157.
10. Shoven, p. 47.
11. Ferrara and Tanner, pp. 169–71.

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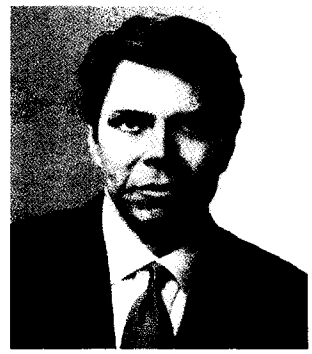
THE FREEMAN
Ideas On Liberty
JANUARY/FEBRUARY 2004



Can You Spot the Billionaire?

A Canadian student once confessed to me the confusion and anger he suffers whenever any of his friends move to the United States. I asked him why he feels this way. He replied that he "could never live in a country with such a high Gini coefficient."

The Gini coefficient is a measure of income inequality. The higher is a country's Gini coefficient, the greater is the inequality of incomes earned in that country. It says nothing about people's absolute material well-being or about mobility among income groups. It is merely a snapshot of current differences in people's monetary incomes.

Recently I attended a seminar that prompted me to recall this Canadian's remark, and to shake my head at its irrelevance.

At this seminar a George Mason University graduate student presented his research on economic development in the Philippines. In the audience were college professors, graduate students, and a bona fide American billionaire. At some point during the student's presentation I realized that had I not been told that the billionaire (let's call him Mr. Bucks) was, in fact, a billionaire, I would have had no inkling that a person of such enormous wealth sat in the room.

It's not that Mr. Bucks was shabby or unkempt. On the contrary, he wore a nice suit and a nice watch, and had a nice haircut. The reason he was not distinguishable as a billionaire had nothing to do with his own appearance; it had everything to do with the appearance of the other 25 or so people in the room. Everyone was as well-dressed and groomed as he was.

Take the graduate student making the presentation. His suit, his watch, and his haircut were also nice. In fact, just looking at both men indicated no difference at all in the quality of their dress, jewelry, or grooming.

It's true that Mr. Bucks likely paid much more for his clothing, jewelry, and grooming than the graduate student did, but such expense is barely visible to the naked eye. One way to detect the wealth differences would have been for me, say, to feel the weave of Mr. Bucks's suit and compare it with that of the graduate student. Mr. Bucks's suit probably would have felt finer.

Another way to detect wealth or income differences would be to rely on rather abstract knowledge. For example, had I examined Mr. Bucks's wristwatch up close, I likely would have learned that it was a Patek Philippe or a Rolex. The graduate student, in contrast, probably wore a Timex or a Swatch. The only reason, however, that "Patek Philippe" and "Timex" provide information about the value of these items is that we know, mostly through advertising, that a Patek Philippe is very expensive and a Timex isn't. A visitor from Mars could have drawn no such inference from the brand names on the watches; he would have simply noticed that both keep time with the same remarkable accuracy.

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An even more abstract piece of knowledge could have been produced by my corralling one of the graduate students into doing a quick survey and using the findings to calculate the Gini coefficient for the occupants of the seminar room. It would have been large. Reading this Gini coefficient would then have revealed (to all who know about Gini coefficients) that the incomes earned by people in that seminar room were quite unequal.

But again, none of the very real differences in incomes that separated people in that room were visible.

Contrast this fact with life in countries less infused with capitalism. As I sat in the seminar room with Mr. Bucks and others, the graduate student presenting his research showed pictures that he took in the Philippines. One picture was of shanty homes built literally on garbage heaps. Other pictures were of the occupants of these homes, often standing beside other Filipinos who were a bit wealthier.

Vast Differences

The wealth differences separating these desperately poor garbage-heap dwellers from their more-fortunate countrymen were evident to the naked eye. These very poor Filipinos wore clothing that, even in a snapshot, was clearly inferior to the clothing worn by Filipinos of greater, if still modest, wealth.

And importantly, even Filipinos who enjoyed this modest wealth wore clothes that were noticeably cheaper than those worn by one of the wealthiest people in that country, Imelda Marcos. While in the Philippines, the graduate student met Mrs. Marcos and had his picture taken with her. Her dress would not have distinguished her on any American street, but it was visibly superior to that worn by any other Filipino who appeared in the pictures we saw at that seminar.

It's when I noticed this fact that I scanned the room and realized that the wealth differences separating Mr. Bucks from everyone else (and separating us professors from the graduate students) were invisible.

This fact about capitalist society is remarkable. Hefty differences in money income and wealth do exist in capitalist societies. But the consequences of this inequality on actual material standards of living are so small that they are largely invisible. For most of the features of our routine existence—our dress, personal cleanliness, and access to basic health care, such as vaccines, vision correction, pain relief, and first aid—almost everyone in capitalist society is equal. (I noticed that Mr. Bucks swallowed two Bayer aspirin just as the seminar began. Bayer is the brand I use when I have a headache.) The differences in these everyday aspects of life that do distinguish people of different wealth levels are minor and largely unobservable.

I don't want to push this point too far. I'm certain that Mr. Bucks has several homes, each one far grander—and visibly so—than any place the typical American will ever live. I'm sure that he drives an automobile that is much nicer than most, and that he drinks finer wine and eats at fancier restaurants than do ordinary people. And Mr. Bucks never worries about how he'll pay his bills if he loses his job.

But the fact remains that in many of the basic elements of life, nearly every American is as well off as Mr. Bucks. If wealth differences between billionaires and ordinary Americans are barely visible in the most routine aspects of daily life, then to suffer distress over a Gini coefficient is to unwisely elevate ethereal abstractions over palpable reality. □

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THE FREEMAN
Ideas On Liberty
JANUARY/FEBRUARY 2004

Regulatory Escalation

by Robert Carreira

An escalator mishap last July at Coors Field in Denver injured 35 people. As expected, those who see the federal nanny state as a solution to all ills are demanding more government, more laws, and more regulation. But before this bandwagon gets rolling, we should ask whether federal regulation of escalators would make us any safer.

First, escalators are already quite safe. The U.S. Consumer Product Safety Commission (CPSC) estimates that 8,420 people were injured on escalators in 2001. But that is out of about 25 million trips daily, according to Richard Atkinson, executive director of the National Association of Elevator Safety Authorities.[1] Thus it took approximately 9.13 billion trips for these 8,420 people to be injured. To put it another way, about one in every 1.1 million trips on an escalator results in an injury. This means that if the average person rides an escalator twice a day—once up and once down—for every day of his life it would take over 1,500 years to be injured. Now of course none of us lives that long. But if you did nothing but ride escalators nonstop for eight hours a day, every day of the week, presuming a rate of one trip per minute for 480 trips a day, it would still take you over six years to injure yourself.

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But perhaps a one-in-a-million chance of being injured on an escalator is still too great a risk for some. If that is so, there is even more good news. The vast majority of injuries that occur on escalators are minor and are caused not by the escalator malfunctioning or by some defect in design or manufacture. They are caused by riders not paying attention, losing their balance, or failing to control their luggage.

For example, in Florida in 2002, according to that state's Bureau of Elevator Safety, there were 283 people injured in escalator accidents. The vast majority of those injuries consisted of minor scratches, abrasions, and bruises. There were no reported fatalities.[2]

Of the 283 injuries, only 22—less than 8 percent—were either the result of faulty equipment or could possibly, or even remotely, be attributed to equipment operation, design, or manufacture. In a few of the cases, injured riders claimed an unexplainable and somewhat dubious "jerk" or other ostensible malfunction of the escalator, but subsequent examination of the escalators revealed they were in normal working order. I have nonetheless included those cases in the 22 that may have possibly been caused by the equipment. All 22 of the injuries that could possibly or even remotely be attributable to the equipment were minor or negligible.

The other 261 injuries were the result of rider error, with the most common cause being a loss of balance, usually brought on by

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attempting to carry large items onto the escalator, such as luggage, strollers, and walkers.

Several of the injured people sustained their injuries as a result of other riders losing their balance and falling into them. Some of the injuries were caused by people failing to control their luggage, resulting in its falling onto other riders and knocking them down. In more than one case, riders attempted to bring wheelchair-bound relatives onto the escalators, with the predictable disastrous results.

Other common causes included children's running, jumping, and playing on the escalators; riders facing the wrong direction; riders attempting to go up the down escalator or down the up escalator, sometimes changing direction mid-trip; or riders being intoxicated and thus losing their balance, losing control of their luggage or packages, or passing out.

Worth the Cost?

In the final analysis, presuming Florida is typical, federal regulation of escalators, if 100 percent effective in eliminating injuries caused by equipment malfunction or defects in equipment design or manufacture, might prevent, at best, about 655 minor injuries per year nationwide. Now some might say that if 655 injuries, even minor ones, can be prevented, then federal regulation is worth the cost. But let us put the 655 injuries into perspective. According to the CPSC, in 2001 more than twice that number, over 1,500 people, were injured by art supplies. A whopping 3,732 people were injured by toy balloons. Over 10,000 people were injured by books, magazines, albums, or scrapbooks. Just short of that, a staggering 9,346 people, were injured by toothpicks. Toothpicks alone accounted for more than 14 times the number of people who might be spared minor injuries under federal regulation of escalators.[3]

Let us now consider the cost of federal regulations. As noted in a recent Cato Institute report, in 2002 regulatory agencies issued 4,167 new rules, comprising 75,606 pages at an estimated cost to the U.S. economy of $860 billion per year.[4] Next consider this: Each dollar we spend on government regulation is a dollar taken out of the private economy. This is money that could be spent on things people deem more important. Perhaps some people would donate this money to medical research to help treat or find a cure for heart disease—the number-one killer in the United States, responsible for over 700,000 deaths per year.[5]

Perhaps some would invest their money in medical-research companies searching for a cure for a host of ills much more pressing than a one-in-a-million chance of suffering a minor injury on an escalator. Some might purchase newer and safer automobiles, or even simply a new set of tires, which might help lower the current 40,000 motor vehicle deaths per year on U.S. roads and highways.[6]

Others yet may spend it trying to invent a safer toothpick. □

1. Tom McGhee, "Experts Want Feds to Oversee Escalator Code: Regulation Needless, Industry Says," *Denver Post*, July 28, 2003, p. B-2.

2. State of Florida, Department of Business and Professional Regulation, Division of Hotels and Restaurants, Bureau of Elevator Safety, *Elevator/Escalator Accidents: Accidents Occurring Between 07/01/2001 thru 06/30/2002*, www.myflorida.com/dbpr/hr/elevators/accidents_fy2001.pdf; and *Elevator/Escalator Accidents: Accidents Occurring Between 07/01/2002 thru 01/14/2003*, www.myflorida.com/dbpr/hr/elevators/accidents_fy2002.pdf. Discrepancies between the data in the reports and in this article are the result of inaccurate reporting by the bureau, including multiple reports of single incidents and improper classification of elevator accidents as escalator accidents, and vice versa.

3. U.S. Consumer Product Safety Commission, *National Electronic Injury Surveillance System (NEISS) On-line*, www.cpsc.gov/library/neiss.html.

4. Clyde Wayne Crews Jr., *Ten Thousand Commandments: An Annual Snapshot of the Regulatory State*, 2003 Edition. (Washington, D.C.: Cato Institute, 2003).

5. Center for Disease Control and Prevention, National Center for Injury Prevention and Control, *WISQARS Leading Causes of Death Reports, 1999 – 2000*, http://webapp.cdc.gov/sasweb/ncipc/leadcaus10.html.

6. Ibid.

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THE FREEMAN
Ideas On Liberty
JANUARY/FEBRUARY 2004

The Lessons of Another Tolstoy

by Daniel Hager

This is the tale of another Tolstoy—not Leo, the nineteenth-century Russian count, novelist, and social reformer. This Russian came later, in the twentieth century, and was not of the nobility. His first name is obscure. His good friend Vladimir V. Tchernavin, who recounted his story, referred to him only as V. K. Tolstoy.[1]

Leo wrote about war and peace. V. K. wanted only peace but was swept up into a war—a special kind of war, waged by a government against its people. Leo's life was full of fame and honor. V. K.'s turned toward sorrow.

V. K.'s father was a physician with a humble practice. The family's austere living habits yielded enough savings for university training for V. K. He found his niche in ichthyology and after graduation began research work that improved the Russian fisheries. When the Bolshevik revolution arrived, it concerned him little—he was apolitical. He took an administrative position and discharged his duties with his usual diligence.

The revolution turned into convolution. Famine and privation swept the land. As dictator in charge, Lenin had the power to order a change of direction, which he did. His New Economic Policy (NEP) was a reversion to the incentives of open markets. Peasants began again producing surpluses because they could keep the profits. Lenin used shrewd marketing to mask the insult to Marx. His slogan was this: "A communist must be an industrialist and a trader."

After Lenin's death Marx's specter was refleshed. One-year plans for industries were ordered to be stretched out to five years. Each year after 1925 saw a new five-year plan drawn up to replace its failing predecessor. In 1928 came the unveiling of the comprehensive nationwide Five-Year Plan to end all five-year plans—the *Piatiletka*.

Until then V. K. Tolstoy was the director of state fishing operations both in the Black Sea in the south and in the Barents Sea in the cruelly inhospitable north. The Northern State Fishing Trust functioned almost like a private enterprise because its base in the settlement of Murmansk, a gray carving out of soilless granite beyond the Arctic Circle, was too grim and remote for meddling from Moscow. This self-contained exclave yielded no great rewards for its inhabitants other than the sheer joy of achievement, of identifying opportunities and applying skills and knowledge, and realizing results. The catch more than quadrupled, and the processing improvements produced quality equal even to the demands of the export markets. Then the *Piatiletka* came along to ruin everything.

Tolstoy had employed science and reason and orderliness in his administration. He was still a researcher at heart who liked to see scientific findings applied to practical problems. He published some scholarly papers. He lectured at an agricultural college.

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But under the *Piatiletka* the nation's fishing industry was placed in the Political Bureau. Tolstoy transferred to the Scientific Institute of Fishing Economy, where he returned to research full-time.

The new breed of managers—party people—understood little about fishing but much about the power of numbers. They set grandiose production goals that made them initially look good. After the Northern State Fishing Trust had attained an exceptional catch of 40,000 tons by dint of hard work and sound management, it was ordered under the *Piatiletka* to reach 175,000 tons within five years. Then a telegram came from Moscow raising the goal to 450,000 tons. Another telegram followed, then another, each with a higher target. Finally the order arrived mandating a million and a half.

The trawlers required for such a feat did not exist and could not be bought or built in time. The personnel to captain the fancied 500 trawlers could not be recruited and trained so soon. The Murmansk infrastructure to process such an overwhelming catch could not be constructed under such tight constraints.

Fumbling Academic

V. K. Tolstoy was an academic now. He had always been the sort who fumbled through his personal life, a loner who didn't even bother to repair the holes in his boots. Tchernavin recalled that Tolstoy was one of the few who failed to profit during the transient prosperity of the NEP. V.K. poured his life into fish.

As a researcher he was assigned to study the carrying capacity of the Barents Sea fisheries. His conclusion was that a 500-trawler fleet was fatuous, that anything over 125 would be inefficient.

When he read his report in public, the party members who could not avoid attending fidgeted in silence. They knew he was right, but they did not dare to offer either support or rebuttal. Their reactions would become known up through the party ranks and to the GPU, the secret police, so they sat with faces of stone.

The purported leap forward of the *Piatiletka* provided good copy at first for the government-controlled newspapers. The foreign press picked up on the superior accomplishments of the unshackled proletariat compared to the anemic past under bourgeois bondage.

But then reality overtook the propaganda. Not only were the *Piatiletka* goals not being met, but the entire food system was also unraveling. Lenin-style famine was staring Stalin in the face. The pillars of production—the Fishing Union, the Meat Union, the Canning Union, the Vegetable Union—were all in a shambles. The incantation in the newspapers was "difficulties of growth."

Tolstoy was vexed that some of his most competent cohorts from his days in the fisheries were mysteriously disappearing from their offices. "Something incomprehensible is going on," he said. As more chaos ensued, more of the scientists and engineers and technicians received visits in the night from the GPU.

On the journey to a classless social structure a new culprit class came into being. The identifying term was "wreckers." They were counterrevolutionaries, bourgeois reactionaries. Through the summer of 1930 the captive press chronicled the "breaches" of the "wreckers" in all sectors of the economy, from food and chemicals and lumber to coal and steel and rubber, and on and on. Veterinarian wreckers poisoned pigs—hence the shortage of meat. Unsanitary handling of foodstuffs caused a shortage of vegetables. "Who interferes with the supply of vegetables?" blared one headline, followed by "Why is prosecution inactive?"

It wasn't, for arrests were mounting night by night. Not uncuriously, the victims were all noncommunists. The role of party members was to point out the wreckers and fabricate evidence.

Tolstoy wrung his hands at the events but never fully grasped the new realities. "I'm so glad I have nothing more to do with planning," he said. "Scientific work is much more peaceful." In August he was in Baku, on the Caspian Sea, and might have been able to slip across the nearby border into Persia but

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never made the attempt. He returned to Moscow, apparently unmindful of the machinery then grinding away. His apartment had been searched during his absence. A few days before his departure a communist professor had publicly alleged that the Barents Sea could yield 15 million tons of fish, that the trawlers were bringing in only 5 percent of the potential catch. Those who averred otherwise were wreckers.

Oblivious to Doom

On September 11, 1930, the unworldly V. K. Tolstoy, a noncommunist fisheries expert, a scientist first, last and only, sensed no personal danger but was already doomed. On September 12 he was arrested. A September 9 memo by the GPU contained "testimonies" that Tolstoy was a wrecker.

Also rounded up were other apolitical experts, one a specialist in international fishing law, another the nation's leading authority on fresh-fish refrigeration, another the foremost expert on fishing equipment. The September 22 newspapers exposed a total of 48 from all the food sectors as part of a conspiracy, "a counter-revolutionary organization of wreckers of the workmen's food supply system," rooted in the pre-revolutionary privileged castes, funded by foreign capital, aimed at "the producing of famine in the country . . . and thereby attempting to precipitate the downfall of the dictatorship of the proletariat."

As the court cases against the 48 advanced, workers around the nation were forced to attend meetings and call for "justice." Newspaper stories on September 23 and 24 published enthusiastic worker resolutions endorsing execution.

The GPU acceded to this groundswell of demand. It announced that the 48 had been condemned to be shot. Furthermore—"the sentence has been carried out."

V. K. Tolstoy fell before a bullet like a common criminal. He was guilty of being a scientist. No communists were among the 48, just some of the most essential technical talent in the nation.

Outside apologists still were unwilling to believe. The *New York Times* published a party-line dispatch claiming the 48 were "members of a secret counter-revolutionary society" comprising mainly "former noblemen, Czarist officers, manufacturers and property owners."[2] It editorialized that "the long waiting lines before the food and goods stores are due in large measure to counter-revolutionary machinations" and that "today the food supply organization of the country is still at the mercy of irreconcilable bourgeois and ex-Czarist experts."[3]

The reporters and editors had not talked to Vladimir V. Tchernavin. He also was a fisheries expert and was himself soon arrested. He fled from a prison camp to Finland with his wife and son in an escape so harrowing and incredible that, had it been from Nazi Germany, it would long since have been a movie.[4]

But the mythology of Marxism persists today. The problem, we are supposed to believe, was not with Marx but with Stalin. A more benign leader would have avoided the butchery.

However, the problem is Marx. Central economic planning is not really about economics. Politics trumps economics. The populace must be politically manipulated to be kept in place. That end must be achieved by whatever means.

Egalitarianism is inherently oligarchic. Hence it is conservative. Socialism, once it replaces an *ancien régime*, immediately becomes its own *ancien régime*. Marx was not a revolutionary but a reactionary trying to craft a new model of royal privilege to be enjoyed by a new nobility—himself and his kind.

The unremembered burial sites of V. K. Tolstoy and the other 47 are testimony to the futility of a lingering delusion. □

1. Vladimir V. Tchernavin, *I Speak for the Silent* (London: Hamish Hamilton, 1935). Unless otherwise noted, all quotes are from this book.

2. "48 Executed in Soviet as Damagers of Food; All Convicted of Plotting a Counter Revolt," *New York Times*, September 26, 1930, p. 1.

3. "Stern Measures in Russia," *New York Times*, September 26, 1930, p. 22.

4. Tchernavin, and Tatiana Tchernavin, *Escape From the Soviets* (New York: E. P. Dutton, 1934).

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THE FREEMAN
Ideas On Liberty
JANUARY/FEBRUARY 2004

On "Elective Despotism"

In *From Liberty to Democracy: The Transformation of American Government*, Randall Holcombe writes:

> At the end of the twentieth century, Americans viewed their government very differently from the way it was viewed at the beginning of the nineteenth century. When the nation was founded, the federal government was viewed as a protector of individual rights, but by the end of the twentieth century, the federal government was viewed as a collective decision-making institution to implement the will of the majority and to protect and further the economic interests of its citizens. The idea of limits on the government's power has been completely eroded.

Another way to put this is that Americans gave up the modern notion of liberty and reverted to the ancient notion. The two notions of liberty are the subject of a remarkable essay, written in 1816, by the French classical liberal Benjamin Constant (1767–1830). Titled "The Liberty of the Ancients Compared with that of the Moderns," Constant addressed a point that is perhaps more important today than it was in his own time.

He first identified how a nineteenth-century Englishman, Frenchman, or American thought of liberty:

> For each of them it is the right to be subjected only to the laws, and to be neither arrested, detained, put to death or maltreated in any way by the arbitrary will of one or more individuals. It is the right of everyone to express their opinion, choose a profession and practice it, to dispose of property, and even to abuse it; to come and go without permission, and without having to account for their motives or undertakings. It is everyone's right to associate with other individuals, either to discuss their interests, or to profess the religion which they and their associates prefer, or even simply to occupy their days or hours in a way which is most compatible with their inclinations or whims. Finally it is everyone's right to exercise some influence on the administration of the government, either by electing all or particular officials, or through representations, petitions, demands to which the authorities are more or less compelled to pay heed.*

Then he took up the ancient notion of liberty:

> [It] consisted in exercising collectively, but directly, several parts of the complete sovereignty; in deliberating, in the public square, over war and peace; in forming alliances with foreign governments; in voting laws, in pronouncing judgments;

Sheldon Richman is editor of The Freeman.

*The essay is online at www.uark.edu/depts/comminfo/cambridge/ancients.html.

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> in examining the accounts, the acts, the stewardship of the magistrates; in calling them to appear in front of the assembled people, in accusing, condemning or absolving them.

In other words, "[T]he liberty of the ancients . . . consisted in an active and constant participation in collective power. Our freedom must consist of peaceful enjoyment and private independence. "

"Subjection of the Individual"

Constant emphasized the narrowness of the ancients' liberty: "[T]hey admitted as compatible with this collective freedom the complete subjection of the individual to the authority of the community . . . . All private actions were submitted to a severe surveillance. No importance was given to individual independence, neither in relation to opinions, nor to labor, nor, above all, to religion."

Constant pointed out that in the ancient democratic city-states "The will of each individual had real influence: the exercise of this will was a vivid and repeated pleasure. . . . Everybody, feeling with pride all that his suffrage was worth, found in this awareness of his personal importance a great compensation."

But the modern mind is different, Constant said:

> This compensation no longer exists for us today. Lost in the multitude, the individual can almost never perceive the influence he exercises. . . . The exercise of political rights, therefore, offers us but a part of the pleasures that the ancients found in it, while at the same time the progress of civilization, the commercial tendency of the age, the communication amongst peoples, have infinitely multiplied and varied the means of personal happiness.

Summing up, Constant wrote, "The aim of the ancients was the sharing of social power among the citizens of the same fatherland: this is what they called liberty. The aim of the moderns is the enjoyment of security in private pleasures; and they call liberty the guarantees accorded by institutions to these pleasures."

Constant did not pronounce the modern notion superior to the ancient. He simply reported the difference. But today's advocates of the freedom philosophy have no trouble seeing the superiority of the modern notion. Can the right to vote really constitute the entirety of liberty when the outcome of an election can dictate in what peaceful ways you may conduct your life?

The nation's founders were moderns, sons of the Enlightenment. The Constitution is full devices meant to thwart majority rule in order to protect the individual and his property: from the presidential veto and the supermajority required for override, to representation in the Senate (two per state no matter its population), to the Bill of Rights, which prohibits Congress from making certain laws.

Moreover, we have Federalist 10, James Madison's barrage against unchecked majority rule. Madison asked how private rights could be secured against a tyrannical majority? He replied: "[T]the majority . . . must be rendered, by their number and local situation, unable to concert and carry into effect schemes of oppression."

That rules out democracy. As Madison wrote, "From this view of the subject it may be concluded that a pure democracy, by which I mean a society consisting of a small number of citizens, who assemble and administer the government in person, can admit of no cure for the mischiefs of faction. . . . Hence it is that such democracies have ever been spectacles of turbulence and contention; have ever been found incompatible with personal security or the rights of property."

Madison thought a large republic, as opposed to a small democracy, would offer better protection of liberty and property. In light of the change Randall Holcombe recognizes, Madison seems to have overestimated people's ability to distinguish the ancient and modern notions of liberty. Alexis de Tocqueville, by his warnings against what Jefferson called "elective despotism," showed that he knew better. □

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Federal Surveillance: The Threat to Americans' Security

by James Bovard

Since the terrorist attacks on 9/11 the Bush administration has launched many new surveillance programs in the name of homeland security. When critics raised questions about the potential abuses of the new powers, some administration supporters insisted that Bush's new surveillance policies were benign because there was no evidence the programs were being abused.

But the key to understanding new government intrusions is that horror stories do not surface in the first 72 hours after a new power is granted. The machinery of government takes time to deploy and expand. It takes time for the impact of precedents to expand, for the agents all along the line to get the message that they are not entitled to go much further than before. We must look to history to see what is likely to happen once the government is unleashed.

In May 2002, after revelations that the FBI missed many warning signs before 9/11, Attorney General John Ashcroft announced that he was effectively abolishing restrictions on FBI surveillance of Americans' everyday life. Those restrictions were first imposed in 1976 after pervasive FBI abuses were revealed. At that time, Attorney General Edward Levi announced guidelines to curtail FBI agents' intrusions into the lives of Americans who were not criminal suspects.

At his May 30 announcement Ashcroft declared that, after 9/11, "we in the leadership of the FBI and the Department of Justice began a concerted effort to free the field agents—the brave men and women on the front lines—from the bureaucratic, organizational, and operational restrictions and structures that hindered them from doing their jobs effectively."[1] He complained that in the past FBI agents were required "to blind themselves to information that everyone else [was] free to see."

However, as the Center for Democracy and Technology, a Washington non-profit organization, noted, "The FBI was never prohibited in the past from going to mosques, political rallies and other public places, to observe and record what was said, but in the past it had to be guided by the criminal nexus—in deciding what mosques to go to and what political meetings to record, it had to have some reason to believe that terrorism might be discussed."[2] A *New York Times* editorial warned that the new guidelines "could mean that F.B.I. agents will show up at the doors of people who order politically unpopular books on Amazon.com or make phone calls to organizations critical of the government."[3]

Ashcroft's announcement concluded with the mandatory invocation of freedom consecrating each Bush power grab: "These guidelines will also be a resource to inform the American public and demonstrate that we

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Contributing editor James Bovard is the author of Terrorism & Tyranny: Trampling Freedom, Justice, and Peace to Rid the World of Evil *(Palgrave Macmillan, September 2003).*

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seek to protect life and liberty from terrorism and other criminal violence with a scrupulous respect for civil rights and personal freedoms. The campaign against terrorism is a campaign to affirm the values of freedom and human dignity. . . . Called to the service of our nation, we are called to the defense of liberty for all men and women." When Bush was asked about the new FBI guidelines at a photo opportunity that same day, he declared, "the initiative that the attorney general will be outlining today will guarantee our Constitution."[4]

Ashcroft talked as if the old guidelines on FBI surveillance were simply the result of a long-ago outbreak of temporary insanity among liberals. Ashcroft declared: "In its 94-year history, the Federal Bureau of Investigation has been . . . the tireless protector of civil rights and civil liberties for all Americans."[5]

The 1976 guidelines were put in place in response to a report by the Senate Select Committee to Study Governmental Operations that detailed many FBI abuses over the preceding decades. For 15 years, from 1956 to 1971, the FBI ran COINTELPRO (Counterintelligence Programs) to actively subvert groups and people that the FBI considered threats to national security or to the established political and social order. Over 2,300 separate operations were carried out to incite street warfare between violent groups, to wreck marriages, to get people fired, to smear innocent people by portraying them as government informants, to sic the IRS on people, and to cripple or destroy left-wing, black, communist, or other organizations.[6] The FBI let no corner of American life escape its vigilance; it even worked to expose and discredit "communists who are secretly operating in legitimate organizations and employments, such as the Young Men's Christian Association and Boy Scouts."[7]

Burglary Exposes Scandal

Throughout the COINTELPRO period, presidents, congressmen, and other high-ranking federal officials assured Americans that the federal government was obeying the law and upholding the Constitution. It took a burglary of an FBI office in Media, Pennsylvania, to break the biggest scandal in the history of federal law enforcement. After hundreds of pages of confidential records were commandeered, the "Citizen's Commission to Investigate the FBI" began passing out the incriminating documents to the media.[8] The shocking material sparked congressional and news investigations that eventually (temporarily) shattered the FBI's legendary ability to control its own image.

The 1976 Senate report noted that COINTELPRO's origins "are rooted in the Bureau's jurisdiction to investigate hostile foreign intelligence activities on American soil" and that the FBI used the "techniques of wartime." William Sullivan, former assistant to the FBI director, declared, "No holds were barred. . . . We have used [these techniques] against Soviet agents. . . . [The same methods were] brought home against any organization against which we were targeted. We did not differentiate."[9]

The FBI sought to subvert many black civil-rights organizations, including the Southern Christian Leadership Conference, Student Nonviolent Coordinating Committee, Deacons for Defense and Justice, and Congress of Racial Equality. FBI headquarters ordered field offices to, as the Senate report noted, "exploit conflicts within and between groups; to use news media contacts to disrupt, ridicule, or discredit groups; to preclude 'violence-prone' or 'rabble rouser' leaders of these groups from spreading their philosophy publicly; and to gather information on the 'unsavory backgrounds'—immorality, subversive activity, and criminal activity—of group members." FBI agents were also ordered to develop specific tactics to "prevent these groups from recruiting young people."[10]

Almost any black organization could be targeted for wiretaps. One black leader was monitored largely because he had "recommended the possession of firearms by members for their self-protection."[11] At that time, some southern police departments and sheriffs were notorious for attacking blacks who stood up for their civil rights.[12]

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The FBI office in San Diego instigated violence between the local Black Panthers and a rival black organization, US (United Slaves Inc.).[13] Agents sent forged letters making accusations and threats to the groups purportedly from their rivals, along with crude cartoons and drawings meant to enrage the recipients. Three Black Panthers and one member of the rival group were killed during the time the FBI was fanning the flames. A few days after shootings in which two Panthers were wounded and one was killed, and in which the US headquarters was bombed, the FBI office reported to headquarters: "Efforts are being made to determine how this situation can be capitalized upon for the benefit of the Counterintelligence Program."

The FBI office bragged shortly thereafter: "Shootings, beatings, and a high degree of unrest continues to prevail in the ghetto area of southeast San Diego. Although no specific counterintelligence action can be credited with contributing to this overall situation, it is felt that a substantial amount of the unrest is directly attributable to this program."[14]

The FBI set up a Ghetto Informant Program that continued after COINTELPRO and that had 7,402 informants, including proprietors of candy stores and barbershops, as of September 1972. The informants served as "listening posts" "to identify extremists passing through or locating in the ghetto area, to identify purveyors of extremist literature," and to keep an eye on "Afro-American type bookstores" (including obtaining the names of the bookstores' "clientele"). The informants' reports were stockpiled in the FBI's Racial Intelligence Unit.[15]

King Targeted

For most of the last five years of his life Martin Luther King was "the target of an intensive campaign by the Federal Bureau of Investigation to 'neutralize' him as an effective civil rights leader," the Senate report noted. King's "I Have a Dream" speech in Washington in August 1963 was described by the FBI's Domestic Intelligence Division as evidence that King had become "the most dangerous and effective Negro leader in the country." King's home and office were wiretapped and, on 16 occasions, the FBI placed wiretaps in King's motel rooms, seeking information on the "private activities of King and his advisers" to use to "completely discredit" them. The FBI sent a copy of one tape recording directly to King along with a note "which Dr. King and his advisers interpreted as a threat to release the tape recording unless Dr. King committed suicide," the Senate report noted. The FBI offered to play tapes from the hotel rooms for "friendly" reporters. It also sought to block the publication of articles that praised King. An FBI agent intervened with Francis Cardinal Spellman to seek to block a meeting between King and the pope.[16]

FBI informants also "set up a Klan organization intended to attract membership away from the United Klans of America. The Bureau paid the informants' personal expenses in setting up the new organization, which had, at its height, 250 members." During the six years Gary Rowe spent as an FBI informant with the Klan, he, along with other Klansmen, had "beaten people severely, had boarded buses and kicked people off; had went [sic] in restaurants and beaten them with blackjacks, chains, pistols." Rowe testified how he and other Klansmen used "baseball bats, clubs, chains, and pistols" to attack Freedom Riders.[17]

The FBI continually expanded its racial-surveillance investigations, eventually targeting white people who were "known to sponsor demonstrations against integration and against the busing of Negro students to white schools." The FBI also created a national "Rabble Rouser" Index, a "major intelligence program . . . to identify 'demagogues.'"[18]

From 1967 to 1972 the FBI paid Howard Berry Godfrey to be an informant with a right-wing paramilitary group in the San Diego area known as the Secret Army. The Senate committee discovered that Godfrey or the Secret Army was involved in "firebombing, smashing windows . . . propelling lug nuts through windows with sling shots, and breaking and entering." Godfrey took a

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Secret Army colleague with him to conduct surveillance of the home of a left-wing San Diego State University professor; the colleague fired several shots into the home, badly wounding a woman inside. The Senate report noted "even this shooting incident did not immediately terminate Godfrey as an [FBI] informant." Godfrey subsequently sold explosive material to a subordinate in the Secret Army who bombed the Guild Theater in San Diego in 1972.[19]

One FBI informant infiltrated an antiwar group and helped it break into the Camden, New Jersey, Draft Board in 1970. The informant later testified: "Everything they learned about breaking into a building or climbing a wall or cutting glass or destroying lockers, I taught them. I taught them how to cut the glass, how to drill holes in the glass so you cannot hear it and stuff like that, and the FBI supplied me with the equipment needed. The stuff I did not have, the [FBI] got off their own agents."[20] That sting led to a press conference in which J. Edgar Hoover and Attorney General John Mitchell proudly announced the indictment of 20 people on an array of charges. After learning of the FBI's role in the crime, a jury refused to convict any of the defendants.

Some COINTELPRO operations targeted the spouses of political activists, sending them letters asserting that their mates were unfaithful. "Anonymous letters were sent to, among others, a Klansman's wife, informing her that her husband had 'taken the flesh of another unto himself,' the other person being a woman named Ruby, with her 'lust filled eyes and smart aleck figure'; and to a 'Black Nationalist's' wife saying that her husband 'been maken it here' with other women in his organization 'and that he gives us this jive bout their better in bed then you.'"[21]

One FBI field office bragged that one such letter to a black activist's wife produced the "tangible result" and "certainly contributed very strongly" to the marriage's demise. The FBI targeted the women's liberation movement, resulting in "intensive reporting on the identities and opinions of women who attended" women's lib meetings. One FBI informant reported to headquarters of a meeting in New York: "Each woman at this meeting stated why she had come to the meeting and how she felt oppressed, sexually or otherwise. . . . They are mostly against marriage, children, and other states of oppression caused by men." Women's lib informants were instructed to "go to meetings, write up reports . . . to try to identify the background of every person there . . . [and] who they were sleeping with." The Senate report noted that "the intensive FBI investigation of the Women's Liberation Movement was predicated on the theory that the activities of women in that Movement might lead to demonstrations and violence."[22]

The Senate report also described the "snitch jacket" technique—neutralizing a target by labeling him a "snitch" or informant so that he would no longer be trusted—which was used in all COINTELPRO operations. The methods ranged from having an authentic informant start a rumor about the target member, to anonymous letters or phone calls, to faked informants' reports. . . . The "snitch jacket" is a particularly nasty technique even when used in peaceful groups. It gains an added dimension of danger when it is used—as, indeed, it was—in groups known to have murdered informers.[23]

Shotgun Approach

The FBI took a shotgun approach toward protesters partly because of its "belief that dissident speech and association should be prevented because they were incipient steps toward the possible ultimate commission of an act which might be criminal." Some FBI agents may have viewed dissident speech or protests as a "gateway drug" to blowing up the Washington Monument. The Senate report noted:

> The clearest examples of actions directly aimed at the exercise of constitutional rights are those targeting speakers, teachers, writers or publications, and meetings or peaceful demonstrations. Approximately 18 percent of all approved

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> COINTELPRO proposals fell into these categories. The cases include attempts (sometimes successful) to get university and high school teachers fired; to prevent targets from speaking on campus; to stop chapters of target groups from being formed; to prevent the distribution of books, newspapers, or periodicals; to disrupt news conferences; to disrupt peaceful demonstrations, including the SCLC's Washington Spring Project and Poor People's Campaign, and most of the large antiwar marches; and to deny facilities for meetings or conferences.[24]

An FBI memo warned that "the anarchist activities of a few can paralyze institutions of learning, [conscription] induction centers, cripple traffic, and tie the arms of law enforcement officials, all to the detriment of our society." The FBI declared: "The New Left has on many occasions viciously and scurrilously attacked the Director [J. Edgar Hoover] and the Bureau in an attempt to hamper our investigation of it and to drive us off the college campuses."

The FBI ordered field offices in 1968 to gather information illustrating the "scurrilous and depraved nature of many of the characters, activities, habits, and living conditions representative of New Left adherents."[25] The headquarters directive informed FBI agents across the land: "Every avenue of possible embarrassment must be vigorously and enthusiastically explored. It cannot be expected that information of this type will be easily obtained, and an imaginative approach by your personnel is imperative to its success." One FBI internal newsletter encouraged FBI agents to conduct more interviews with antiwar activists "for plenty of reasons, chief of which are it will enhance the paranoia endemic in these circles and will further serve to get the point across that there is an FBI agent behind every mailbox."[26]

A major goal of the COINTELPRO against the New Left operations was to "counter the widespread charges of police brutality that invariably arise following student-police encounters."[27] The FBI was especially incensed at criticisms that Chicago policemen used excessive force when they attacked demonstrators during the 1968 Democratic National Convention. The FBI thus launched an illegal program to smear people the FBI believed had made false assertions of police misconduct.

As COINTELPRO continued, the FBI targeted more and more groups and used increasingly vicious tactics. The Senate report noted:

> The White Hate COINTELPRO [that focused primarily on the Klan] used comparatively few techniques which carried a risk of serious physical, emotional, or economic damage to the targets, while the Black Nationalist COINTELPRO used such techniques extensively. The New Left COINTELPRO, on the other hand, had the highest proportion of proposals aimed at preventing the exercise of free speech. Like the progression in targeting, the use of dangerous, degrading, or blatantly unconstitutional techniques also appears to have become less restrained with each subsequent program.

The FBI continually discovered new enemies. Nixon aide Tom Charles Huston testified of the program's tendency "to move from the kid with a bomb to the kid with a picket sign, and from the kid with the picket sign to the kid with the bumper sticker of the opposing candidate. And you just keep going down the line."[28]

Other federal agencies also trampled citizens' privacy, rights, and lives during the late 1960s and early 1970s. The IRS used COINTELPRO leads to launch audits against thousands of suspected political enemies of the Nixon administration. The U.S. Army set up its own surveillance program, creating files on 100,000 Americans and targeting domestic organizations such as the Young Americans for Freedom, the John Birch Society, and the Anti-Defamation League of B'Nai B'rith.[29]

The Senate report on COINTELPRO concluded: "The American people need to be assured that never again will an agency of

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the government be permitted to conduct a secret war against those citizens it considers threats to the established order. Only a combination of legislative prohibition and Departmental control can guarantee that COINTELPRO will not happen again."[30]

The Ford administration derailed legislative reforms in 1976 by promising an administrative fix. Now, 26 years later, Attorney General Ashcroft has thrown the restraints out the window, pretending there was never a valid reason to rein in the FBI.

The more information government gathers on people, the more power it will have over them. The more power it has to monitor their peaceful activities, the more intimidated Americans will become. Regardless of the Bush administration's intentions in its war on terrorism, the new federal powers threaten the rights and personal security of American citizens. □

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Property and Prosperity: The Vital Link

by Tibor R. Machan

Professor Richard Pipes has written extensively about the connection between property rights and prosperity in the history of Russia. Others have noted the connection in various places around the globe, including Peter Bauer and Amartya Sen. Without the legal infrastructure that recognizes and protects the right to private property, as well as some other, derivative institutions, such as freedom of contract, prosperity is difficult to foster.

Yet why is there this close connection between the right to private property and prosperity? Why is it so evident in Russia's history and current economic situation? Why does it have such a noticeable impact on Africa's economy? And why, also, is it a feature of Europe's and even America's economic woes, with interventionist laws and regulations—bearing on the employment and the environment—eating away at private property rights and thus producing unemployment and economic malaise?

What is it about the world and human beings that renders so vital respect and protection for the right to private property?

The main reason for our having the right to private property was clearly indicated by William of Ockham when he characterized natural rights as "the power of right reason." This means that only when a person has a defined sphere of authority will he have the capacity to make meaningful, concrete moral judgments. We live in a natural world in which our actions have moral significance: are we doing what we ought to do or are we neglecting or even subverting this? To know, there must be a sphere of authority for each of us, including a material sphere in which we may carry out our plans. That is the first reason why private property rights are necessary for human community life: that sphere can be threatened, attacked, and undermined, and so it must be secure.

Of course, just how actual ownership of one thing or another, simple or complex, is to be obtained is itself complicated. John Locke pinned it on our mixing our labor with natural stuff; others have tied it to good judgment or prudence.*

In light of not only the clear moral significance of the right to private property, but also the issue of prosperity, it is worth considering why this right is under widespread attack in the academy. Why do so many prominent people and publishing houses offer theories denying that individuals have the right to private property? Why, for example, would Thomas Nagel and Liam Murphy manage to get a slim, shopworn attack on private property rights, *The Myth*

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*My essay "The Right to Private Property," at www-hoover.stanford.edu/publications/epp/109/109b.html deals with the topic in detail.

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of Ownership, so well published (Oxford University Press), and why would it get such a good reception?

A promising hypothesis is that the right to private property makes possible the individual's prosperity, and many find that lamentable. Material progress is often deemed materialistic, selfish, commercial, antispiritual, and thus contrary to our higher moral purposes. Indeed, the right to private property is a source of individual liberty, something many consider dangerous because in their view it fosters self-indulgence, hedonism, and degradation. Free men and women need not conform to edicts issued by moralists and other self-appointed leaders.

It doesn't seem to occur to these critics of liberty that without the right to private property it is not possible to choose to pursue those allegedly higher goals. A slave or serf or hostage isn't at liberty to elect to do whatever is deemed to be his duty.

What's an Individual?

Furthermore, there is the idea, advanced by so many who weigh in on this topic, that human beings aren't rights-bearers at all since they aren't really individuals but species beings. Marx told us, in his famous essay "On the Jewish Question," that "The human essence is the true collectivity of man." Auguste Comte said something similar in *Catéchisme positiviste*. Contemporary communitarians aren't all that far from this view when they carry on so negatively about individualism.

Organicism or collectivism renders human beings akin to bees in a hive or ants in a colony without personal identity and, thus, without the sovereignty that is required for moral responsibility.

Unless these views are shown to be erroneous, the attacks on the right to private property will continue and even prevail. It simply does not suffice to show that those attacks lead to misery and oppression, for those issuing the attacks argue that misery and oppression—asceticism and obedience—are our proper lot.

The radicalism of private property is yet to be widely grasped—perhaps understandably since in the history of the human race the idea is very new. That's one reason not to despair. The bad habit of relying on the collective, on chiefs of tribes and heads of states, is difficult to shed. But such bad habits can be overcome, provided there is vigilance, the eternal exercise of which is, of course, the price of liberty. □

In media discussions of budget issues, the arguments of those who oppose taxes are ignored or even suppressed. As a result, the public, and most politicians, have no understanding of the anti-tax position. They think tax opponents are obtuse or simply selfish. Writing in the *Washington Post* (April 5, 2003) the President Pro Tem of the Maryland Senate, Ida Ruben, asks, "Why do Republicans and conservative Democrats consider 'taxes' a dirty word? In a representative democracy, taxes are what buy governmental services for the people who are taxed."

Ms. Ruben deserves an answer. It is that a system that uses your tax dollars to give you something you can buy for yourself is ludicrously wasteful. For the typical governmental service—schools, parks, hospitals, museums—economists have shown that this waste about triples the cost of the service. Most people haven't the patience to read the books and studies that document this point. When it comes to government programs, they assume they are getting something for nothing. Or, like Ms. Ruben, they think they are getting their money's worth.

Those of us who oppose tax increases know that this is an illusion, that raising taxes will drag us ever deeper into an economically destructive morass.

—JAMES L. PAYNE

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THE FREEMAN
Ideas On Liberty
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From Pennsylvania to Verdun: Friedrich List and the Origins of World War I

World War I, or the "Great War" (as most Europeans still call it), was one of the biggest disasters in human history. It not only killed and maimed millions, the cream of a generation, it also destroyed the liberal, cosmopolitan system that had been created in the nineteenth century. It was, moreover, the direct cause of both the Bolshevik revolution of 1917 and the coming to power of Hitler in 1933, and all of the terrible consequences that followed from those events, not least another, even more terrible, war. In many ways, we have only just begun to recover from its effects.

All this makes the origins of the war a matter of concern for us all. One central part of the explanation bears repeating: the part played by bad economic ideas, and in particular the ideas of one man. This man, a mild, bespectacled German professor, can truly be seen as the progenitor of the great catastrophe of 1914–1918. His name was Friedrich List.

List (1789–1846) was a professor of political economy at Tubingen. A liberal in politics, he was forced to leave Wurtemburg in 1825 and emigrated, like so many of his countrymen, to Pennsylvania. There he became a journalist. He also became acquainted with the distinctive American tradition of economic nationalism and its leading advocate, Henry Charles Carey. In 1827 List published *Outlines of American Political Economy*. After his return to Germany in 1832 he further developed his ideas in his main work, *The National System of Political Economy* (1841). List killed himself in 1846 while terminally ill, but his ideas lived on and had enormous influence.

By 1850 the pressing question for all statesmen was that of the best route to economic modernity. The main model was the one put forward by classical economists such as Smith, Ricardo, and Say, which was based on the historical experience of Great Britain. The central prescriptions were for honest and effective but limited government, development driven and funded by private investment decisions, and free trade. This was the policy followed by successful economies, such as those of Britain, Belgium, France (after 1830), and much of Germany. The major counterexamples were the United States (in trade policy) and despotic Paraguay. It was these that List drew on.

List argued that the free-trade and limited-government policy of Adam Smith was impractical, utopian, and dangerous. His central idea was that nations, which stand between the human species and the individual, are the real actors in history and economics. Thus their interests are paramount. In a world of competing nations, the prime purpose of trade and production is the maximum power and prosperity for each nation's own citizens.

List argued that it was better for a nation to have a strong manufacturing and capital-goods sector rather than to rely on agriculture, services, or raw materials, even if the

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return was lower in the short or medium term. This meant that industry had to be protected from foreign competition and that capital had to be politically forced or induced toward the industrial sector. He was not against trade as such, but argued that it could only exist between nations equal in economic development. Otherwise, nations should seek to import raw materials and export manufactured goods.

These ideas became increasingly influential, particularly in his native Germany after the rise of Bismarck. By 1878, when free trade was finally abandoned, the entire Listian program had been adopted. The essential elements were protection for industry and agriculture; state provision of infrastructure; and state direction and encouragement of investment through "soft" loans, guarantees, and even direct investment. Heavy industry was particularly encouraged. Also important were a welfare system and state education, both intended to promote national consciousness and loyalty. A large military establishment was also important.

At first this policy was apparently successful. Germany grew rapidly and by 1900 was the world's second largest producer of steel and the largest of bulk chemicals. However, a number of serious problems had appeared. A central part of the policy was to direct investment by artificially reducing the cost and inflating the returns for certain kinds of investment. This led to substantial malinvestment and to much fundamentally uneconomic capacity; that is, the output could not be sold at a price that would yield a return. This was made worse because domestic demand was depressed by taxes, tariffs, and high prices, so that the process depended increasingly on exports (particularly to Britain, which had remained loyal to free trade). But that became difficult as protectionism made it hard to give goods in exchange.

Moreover, Germany's "success" had led many other nations to follow suit, notably Italy and, above all, Russia. The closing of those markets to German goods led to increasing conflict. The effect of all this was that the loans which the state had underwritten became less sound and the fiscal position of the German government deteriorated sharply, to the point that by the spring of 1914 it was facing the prospect of major cuts, not least in the navy.

Changed Perception

The most serious result of List's ideas, however, was a change in people's thinking and perception. Instead of seeing trade as a cooperative process of mutual benefit, politicians and businessmen came to regard it as a struggle with winners and losers. Germany's leaders, instead of seeing Russia's rapid growth after 1890 as an opportunity and blessing, agonized over it as a terrible threat. Their response was the idea of "MittelEuropa," a customs union including Germany, Austria-Hungary, and the Balkans, which would supply Germany with raw materials while providing a captive market. The leaders also advocated colonies outside Europe and a "blue water" navy. This provoked a similar and hostile response from other powers, especially from Russia. The result was a clash of imperialisms in the Balkans, and in July 1918 the German elite took the (insanely foolish) decision to fight a war with Russia and France. Had they seen the world differently this would not have happened.

The ideas of Friedrich List have been widely followed to this day, in Japan and the Far East for example. The results have been the same: rapid growth, followed by overinvestment, declining returns, and fiscal and/or currency crises. The worldview that these ideas lead to is still common in the United States, as much comment about China's rapid growth indicates. We must devoutly hope that today's leaders do not make the same kind of errors that List's German and Russian disciples made in the years before 1914. □

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THE FREEMAN
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Politics Corrupts Money

by George C. Leef

In September the Supreme Court heard oral arguments in the heated battle over campaign finance reform legislation—the so-called Bipartisan Campaign Reform Act, or BCRA. That law, passed by Congress and signed by President Bush in 2002, has been challenged by a wide array of parties, including such strange bedfellows as the U.S. Chamber of Commerce and the AFL-CIO. The plaintiffs contend that the statute violates the First Amendment of the Constitution.

I won't offer any prediction as to how the Court will rule. Especially in the wake of last summer's decision in the University of Michigan case, where a majority of the Court invented out of thin air a "compelling state interest" in "diversity" that allows schools to ignore the Fourteenth Amendment's requirement that all citizens be treated equally under the law, it's impossible to say how the Court will decide. The language of the Constitution is so easily evaded.

But I will offer some thoughts on how the Court ought to rule. It ought to declare the BCRA unconstitutional and should do so in language that doesn't encourage Congress to go back to the drawing board. The whole enterprise of campaign-finance regulation is not only a violation of the Constitution, but logically misconceived as well.

The constitutional issue is simple. "Congress shall make no law abridging the freedom of speech or of the press," says the First Amendment. In limiting political contributions, which are instrumental in campaign communications, and in restricting political ads, BCRA abridges both. Backers of the legislation say that there are good reasons for the restrictions. I disagree, but even if there were good reasons, the Constitution doesn't say, "Congress shall make no law abridging the freedom of speech unless it's really needed." The drafters of the Constitution gave us an absolute prohibition against congressional tinkering with free speech.

The BCRA's prohibition against "issue ads" before elections is undoubtedly an attack on free speech, but what about its limits on campaign contributions? Are monetary contributions to be equated with speech? Yes, they should be. Such contributions are instrumental to campaign communications and cannot logically be separated from them. Suppose that Congress passed a law saying that no one may spend more than a certain number of dollars per year on paper and ink. Would anyone take seriously the contention that the law did not violate the First Amendment because it merely put limits on the spending of money, but did not directly interfere with a free press? Bradley Smith, now a member on the Federal Elections Commission, put the matter clearly in his book *Unfree Speech*: "If spending money were not a form of speech, the First Amendment would become hollow for all but news-

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papers and other press outlets, since any effort to spread one's message, through advertising or pamphleteering, could be stripped of First Amendment protections simply by attacking the expenditure of money."

But the First Amendment is not the full extent of our constitutional inquiry. We should look first to the body of the Constitution itself to see if there is any grant of authority to Congress to legislate restrictions on campaign contributions and spending at all. Article I, section 8, gives the exhaustive list of congressional powers. Read it through and you will not see any provision that even remotely suggests authority to dictate to people how much of their money they are allowed to contribute to any political candidate or cause. And no, the General Welfare clause won't do. It was never meant to be an all-encompassing grant of power, but instead was included as a limitation on the expressly granted powers. Therefore, we must conclude that the BCRA and all other campaign-finance reform statutes are unconstitutional.

The Flawed Premises of Campaign-Finance Regulation

The central idea of campaign-finance reform is just as flawed as it is unconstitutional. Money—at least money from the wrong sources, or too much of it—supposedly corrupts our otherwise pure democratic system. Bad bills get passed just because of donations from well-heeled interest groups to politicians whose support is for sale, and good bills are blocked for the same reason. The rich have undue influence in the political arena, while "the little guy" is ignored. So what could be fairer than to (sorry, but here comes another cliché) "level the playing field"?

That central idea, however, gets it completely backward. Money does not corrupt politics. Politics corrupts money—that is to say, individuals with money.

Seventy years ago the sociologist Franz Oppenheimer pointed out in his book *The State* that there are fundamentally only two ways of getting what you want in life. He called them "the economic means" and "the political means." By economic means, Oppenheimer meant producing and trading. By political means, he meant the use of force, particularly force as organized and used by government.

If government sticks to its proper role as a neutral enforcer of laws that protect life, liberty, and property, people have to use the economic means to achieve their goals. They have to work to produce goods or services that they then sell to get money so they can buy other things. That regime channels human energy into useful endeavors.

On the other hand, if government allows its powers to be used so that some people can dictate to and live at the expense of others, society will change dramatically as the political means becomes increasingly prevalent. Human energy, resources, and money will go into scheming for the passage of laws and regulations that benefit a few at the expense of the many. Frédéric Bastiat called it "legal plunder" and it has become the means of choice for many in our society.

Therefore, the temptation of politics corrupts people into using their money for all sorts of nefarious purposes. Companies try to buy government subsidies. Unions try to buy protection against competition. Various citizen lobbies try to buy "free" medical care or more "protected wilderness" or increased student aid or hundreds of other goodies. The urge to attain their goals through the use of government force leads them to adopt an array of tactics, mostly using money directly or indirectly, to influence politicians, bureaucrats, and judges.

But at the same time, individuals and organizations that don't want those things foisted on them are driven to spend their resources on opposition politics. They mount campaigns to persuade officials not to enact more legal plunder. Money in politics thus is not only spent trying to bring about bad laws and policies, but also to stop them.

The proponents of campaign-finance reform evidently believe that with their cleansing reforms in place, there will be much less support for the political "bads"—

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even though there is no agreement as to what constitutes a political bad. I submit, however, that it is at least as likely, if not more so, that campaign-finance regulations will be a greater impediment to those who oppose the political bads than to those who promote them.

Impeding the Foes of Special-Interest Legislation

The interest groups that push politicians to give them goodies will not be deterred merely because laws regulate campaign spending. They will find ways to influence politicians anyway. Regulations are apt to have far more impact on "leave us alone" individuals and groups, making it harder for them to raise issues with the public.

Let's consider a hypothetical situation. A coalition of interventionist politicians introduces a bill named "The Good Health for All Americans Act." It would create a "single payer" health-care system—that is, socialized medicine. Doctors would become government employees subject to its direction. Private health insurance would be eliminated because the state would dispense all medical care.

Doctors who don't want to have to choose between leaving their profession and becoming government employees form a group to oppose the bill. So do insurance companies that don't want to be driven out of the market. When they begin lobbying against it, they find that the "grassroots" organizations pushing the bill have already lined up a lot of support using populist appeals and that people like the idea getting something for nothing.

The opponents discover that a few politicians respond to their arguments that the legislation would be a disaster for health care. With many others, however, rational arguments are unavailing. So they turn to another form of persuasion, saying, "If you will oppose 'The Good Health for All Americans Act,' we will give a very large donation to your re-election fund. On the other hand, if you don't oppose it, we will instead give that money to your challenger in the next election."

To campaign-finance reform zealots, this is corruption pure and simple. Inducing a politician to abandon his conscience and vote in a certain way just because of money. How shocking and immoral!

It shouldn't be shocking and certainly isn't immoral. To use some of one's wealth to protect the rest of it is not immoral. That's precisely what the coalition of opponents is doing. They're using the most effective means possible to avoid disastrous legislation. It's too bad that they need to pay what amounts to protection money to politicians just to be left alone, but that's where the ascendancy of the political means has left us. The campaign-finance reformers assume that democracy is working correctly and purely when the populist advocates of socialized medicine promote their nostrums, but has been wickedly subverted when others use their money to play defense. I say that it's the other way around. The attempt to force socialized medicine on a gullible people is corrupt, and the use of money to stave it off is morally praiseworthy.

Yes, one could construct a scenario in which a good legislative initiative (say, elimination of the postal monopoly) is derailed by big-spending pro-monopoly interests, but since the political initiative in America rests strongly with the advocates of expanding government, that sort of thing occurs much less often than the socialized-medicine scenario. In any event, the law cannot distinguish between good and bad uses of money in politics and shouldn't try. Money is often the most effective weapon against socialist depredations; without it, the playing field is tilted strongly in favor of the predators.

The reason why people seek favors from the government is that the government is empowered to give them. Returning to constitutional, very limited government would remove the temptation to use the political means. □

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Free Trade: Key to Peace and Prosperity

by William H. Peterson

At a time of international tension and a so-so economy, we are fortunate that the Federal Reserve Bank of Dallas has issued its essay (online or in hard copy) "The Fruits of Free Trade."

It comes from the Dallas Fed's 2002 annual report, and it carries a simple strategy for peace and prosperity in two words: free trade. The freer the trade the better.

The essay should be required reading for those Bush White House officials who not long ago engineered higher tariffs on foreign steel and Canadian lumber—auto and house buyers be damned. The essay, complete with 14 statistical exhibits in color, has a front cover unlike any district Federal Reserve Bank report I've seen in my professional career: There in living color is a photo of an enticing global fruit basket, its contents available from your supermarket (as explained in the text): apples from New Zealand, apricots from China, bananas from Ecuador, blackberries from Canada, blueberries from Chile, coconuts from the Philippines, and so on. (For the online version, see http://www.dallasfed.org/fed/annual/2002/ar02.pdf.)

Moreover, its two authors, W. Michael Cox, senior vice president and chief economist at the Dallas Fed, and Richard Alm of the *Dallas Morning News*, open up their secret to garnering wealth for both the individual and society. They do it as if they were ancient Greek visitors to the Oracle at Delphi, asking her how to get rich. Study hard? Work hard? "Probably not," they respond to their own rhetorical questions, adding: "Diligence and intelligence are strategies for improving one's lot in life, but plenty of smart, hard-working people remain poor."

So Cox and Alm put the Oracle's counsel for getting wealth into just two short sentences: Do what you do best. Trade for the rest.

In other words, in life they suggest that you play a pro-growth win-win positive-sum game as you trade your productivity for the productivity of others—wherever they may be located, here or abroad. So their formula works for both the individual and society, including nations and the global society. It has no truck for the common if simplistic bumper sticker (usually shown with an image of the Stars and Stripes): "Buy American. The Job You Save May Be Your Own." Such protectionism winds up as an anti-growth win-lose zero- or even negative-sum game.

Indeed, Exhibit 1 makes the point that over the last three decades, a period of U.S. economic growth, rising living standards, and creation of 50 million new jobs, trade in goods and services (exports plus imports) increased from 11 percent to roughly 30 percent of GDP, while U.S. capital flows more than tripled. So the authors reject the idea

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that exports are good because they support U.S. industry while imports are bad because they steal business from domestic producers. Actually, as Cox and Alm argue (as did Adam Smith in *The Wealth of Nations*), we don't produce to produce—but to consume.

Look, say the authors: Yes, exports are resources we don't consume at home, but they are how we pay for much of what we purchase overseas. In the end, cheaper and better imported goods and services are the pay-off to America and Americans. Consumers here and abroad are the win-win winners, as world competition presses producers everywhere to keep their prices competitive and their output at the highest quality feasible.

That competitive pressure, hold the authors, causes Ford to produce cars in 17 countries, with nearly three-fourths of its production occurring outside the United States. This pressure is reflected in the 2001 Honda Civic produced here in the United States with a get-it-where-you-can 75 percent domestic content, or in the 2001 Ford Escort produced here with a 60 percent domestic content. All that pressure is of course aimed at winning sales, at wooing the sovereign consumer with his make-or-break purchases.

Exhibit 7 shows how production in open-market societies far outpaces that in controlled or planned societies, pretty much proving that economic freedom and rising per capita consumption go together like the proverbial horse and carriage. The exhibit ranks two side-by-side, nation-by-nation rating graphs by the Heritage Foundation along with the *Wall Street Journal* and by the Fraser Institute of Vancouver, British Columbia, in terms of the degree of state intervention and the height of related output. The point of Exhibit 7: Country by country it follows that the less trade intervention, such as tariffs and import quotas, the higher the average individual consumption and standard of living.

North versus South Korea

Cox and Alm tell a tale of two nations. One is North Korea, with about the lowest economic freedom in the world. Its per capita income averages just $950 annually, with many North Koreans trying to escape across the border into China. South Koreans, on the other hand, enjoy the bounty of a rather free-enterprise economy, with its per capita income of $11,428—or 12 times that of North Korea.

My only "but" about this remarkable and most welcome essay is its inadvertent lack of the peace-inducing implications of free trade and investment. For the nice fact is that no seller goes around shooting, bombing, or terrorizing his customers. IBM caught this implication in its old motto, "World Peace Through World Trade." Or as the Old Testament caught it: "They shall beat their swords into plowshares, and their spears into pruninghooks."

Robert D. McTeer, Jr., president and CEO of the Dallas Fed, in a comment on the essay, relates the observation "attributed to economist Henry George that protectionists want to do to their own country during peacetime what the country's enemies would wish to do to it during wartime—that is, close its borders to imports."

Hear, hear. □

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THE FREEMAN
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Business and Ethics

by Edmund A. Opitz

Mr. X manufactures gizmos in a plant which uses the varied skills of a thousand employees. These people might cheerfully acknowledge that they'd rather be sailing, or fishing, or whatever; but when it comes to supporting themselves they have chosen to work with Mr. X in preference to any known alternative. They are free to leave whenever a better opportunity offers, and many have indeed "graduated" into other forms of employment, to be replaced by people who have chosen to work with Mr. X as the best opportunity available to them. A lot of people find gizmos useful, and they are offered for sale at a price consumers can afford. So people buy, and Mr. X prospers.

The relations between Mr. X and his employees are amicable; they are completely non-coercive and all arrangements are voluntary. Likewise all arrangements with customers. Mr. X is wholly dependent on willing customers, over whom he has no leverage except the appeal of his product, plus the persuasiveness of his advertising. Mr. X has a profitable business, and his customers profit too; owning a gizmo makes life more pleasant. There is an overall upgrading of the level of human satisfactions on the part of everyone involved: Mr. X, his employees, and the users of his product. By any definition of the term, Mr. X is performing a public service; everybody profits, nobody is coerced.

Mr. Y manufactures thingamajigs. There was once a brisk market for this gadget, but times have changed and the item is no longer fashionable. Sales decline steeply and the firm slumps into the red. Mr. Y's firm is on the verge of failure. Now, no one likes to go down the drain, although in the profit and loss system of the free economy—usually called "capitalism"—some firms are bound to fail; customers simply stop buying, an act of free choice on their part, consumer sovereignty in action.

Mr. Y, although he has lost most of his former customers, has friends in Washington; so he lobbies for a handout. The politicians and bureaucrats respond by bailing him out with taxpayers' money. What does this mean to the average citizen? People who had refused to voluntarily pay their hard-earned dollars for one of Mr. Y's thingamajigs now have a portion of their earnings confiscated by the taxing authority in order to keep Mr. Y and his company afloat. Doesn't seem right, does it?

As long as Messrs. X and Y operated in the private, voluntary sector of society they had no power to coerce anyone. Neither man could force anyone to work for him or buy his products. The rules of the marketplace forbid this. Under these rules Mr. Y faced failure, so he entered into an arrange-

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ment with government, and now the law forces every taxpayer to spend a fraction of his time working for Y, and another fraction to subsidize the sale of Y's product.

There are many real-life situations that parallel the case of Mr. Y. Most recently in the news, and therefore fresh in our memories, is the Chrysler caper. The firm is a large one, and its products have merit. But for a complex set of reasons the American public turned to other makes of automobiles. The free market—which is the playing field where the rules of business hold sway—began telling Chrysler to go into some other line of business, or fail.

This adverse business judgment on its products turned Chrysler toward politics. The several hundred thousands of people who make up Chrysler—management, labor, and stockholders—refused to accept the verdict of consumers, who chose to buy other makes of cars. Instead, they turned to Washington and got help. They got a political remedy for economic failure, as have countless others.

Unbusinesslike Conduct

A business or industry endures only so long as it pleases customers. When a business ceases to please customers it ceases to exist as a business. At this stage of the game it may succeed in pleasing politicians, who have the power to force taxpayers to support the new operation. This is a different ball game. A failed business propped up by a government handout is no longer a business; it's a hybrid which deserves criticism as an unethical raid on the public treasury. It doesn't matter much what you label this politicized industry, so long as you realize that it operates in defiance of the rules which define a business or industry in a free society.

A businessman *per se* operates within the framework of rules laid down by "the market"; when he operates outside this framework, and by a different set of rules, he is something other than a businessman. "The market" describes the process of social cooperation under the division of labor, where free and virtuous people specialize in a complex variety of tasks in anticipation of a consumer demand for the goods and services they produce. This is stage one of the market, and it is followed by stage two—multiple voluntary exchanges of these goods and services where people give over something they value for whatever it is they value more. The end they have in view is maximum satisfaction of creaturely needs for food, clothing, shelter, recreation, or whatever.

Most of those involved in business, industry, and trade operate within the framework laid down by "the market." They have a genuine desire to serve consumers; they take a craftsman's pride in the honest workmanship embodied in quality products which make the life of all of us safer, healthier, or more pleasant. And they feel a moral obligation to give value for value received; they have adopted and try to live up to a code of "business ethics," a praiseworthy effort, at which most businessmen succeed far better than many in other walks of life.

I was discussing this ethical point with a friend who had taught economics to a generation of students at a fine midwestern college, where he also served for some years as Dean. We were talking about our two professions—teaching and preaching—some of whose seamier sides we had experienced from the inside. "You know, Ed," he said to me, "a thoroughly dishonest man can last longer as a professor or a preacher than as a used car salesman!" I had to admit that there was more than a grain of truth in Ben's cynical observation; and further, that these same intellectuals have a tendency to look down their noses at business, industry, and trade, as if the people involved in commercial activity are a lesser breed—a mean and mistaken opinion which I reject completely.

The Customer Is Boss

In a genuinely free society, a *laissez faire* society in the early sense of this much-abused phrase, the businessman is a mandatary of consumers; the customer is boss. Consumer sovereignty! Is this the way the

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businessman likes it? Of course not. Our businessman would like to think of himself as the man in charge, hands on the reins, running a tight ship. But who is he kidding? He doesn't have even the power to set wages in his own factory, or fix the prices he'll charge for his products! His competition, his employees, and his customers make those decisions for him. If he tries to lower wages he will lose his best workers to his competition who pay the going rate or more. If he tries to raise prices people buy elsewhere. He's stymied, and that's why he's tempted on occasion to persuade some politician to bend the rules in his favor, just enough to give him a little "fair advantage." But when a businessman yields to this temptation he forfeits his standing as a businessman and becomes something else—a branch of the government bureaucracy with a status similar to the postal service.

Wealth has a universal appeal, but wealth production is a dull affair. There's nothing about work to make the adrenalin flow or the heart to leap; there's no poetry, dash, or glamour about commercial transactions—which is why the literary tribe turns its back on the realm of trade. John Ruskin, for example, admired the buccaneer and freebooter type, calling him the Baron of the Crags—the knight with his castle atop a hill. The modern man of wealth Ruskin referred to contemptuously as the Baron of the Bags—moneybags, that is. The businessman tends to accept this caricature of himself and his function, vainly trying to conceal it under a false and somewhat ridiculous image.

If only business radiated some of the magic that invests royalty, or reflected some of the panache of the military! So dreams the man of business, who then finds wish fulfillment, of sorts, in assuming titles such as The Spaghetti King, The Chewing Gum Czar, The Fast Food Tycoon, and so on. Captains of Industry meet with their Lieutenants at the Admirals' Club to work out the strategy and tactics of the next "trade war." Inside the plant or in the boardroom our tiger is referred to with affectionate dread as The Boss, or The Old Man.

The Function of the Businessman Is to Serve the Customer

There is an inversion of values here, as well as a gross misunderstanding of the role of the businessman in society, a misunderstanding on the part of the businessman himself, which is shared by friends and enemies alike. Kings and dukes in the precapitalistic ages did not produce or earn the wealth they enjoyed; they seized the wealth produced by others. They lived by "The good old rule, The simple plan, That they should take who have the power, And they should keep who can."

Royalty and the nobility exercised vital functions at the time, but work was not one of them; and the same might be said of the military. As necessary as a military establishment is for the defense of the nation, is it not obvious that military action results in the consumption and destruction of wealth? The businessman appeared on the scene as a different breed altogether; the businessman *earns* whatever wealth he obtains, and the method he employs increases the well-being of others. He is on an ethical par, to say the very least, with those who rule and those who fight!

"I take what I want," said Frederick the Great. "I can always get some pedant to justify my actions." The thief also takes what he wants, and so does the pirate and the racketeer. The king, the crook, the buccaneer and the gangster pursue their naked self-interest directly, operating in terms of a ruthless egoistic hedonism. Bemused by these glamorous figures, apologists for capitalism have explained the motivation of the businessman in terms of the same egoistic hedonism. With friends like this the businessman doesn't need enemies!

It is a truism to say that everyone tries to improve his circumstances, to upgrade his level of well-being. The question is How? Pursuing one's self-interest directly, at the expense of other people, is the way of the powerful and the crooked. Serving one's self indirectly by advancing the well-being of other people is the operational principle of the free-market economy.

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To illustrate: the successful buggy manufacturer with a deep personal commitment to this means of transport and pride in his product finds business falling off. Consumer taste is gravitating toward the new-fangled horseless carriage. Our entrepreneur, if he wants to stay in business, must swallow his pride and put his time, talents, and capital at the service of those who want automobiles. The ruler of this tiny industrial empire, as he fancies himself, surrenders, and agrees to put himself at the disposal of consumers. Everyone's welfare is upgraded in the only way possible for this to occur.

The Good Society

The latter part of the 18th century marks a watershed in human history. Walter Lippmann, writing about the capitalistic era which opened two hundred years ago, utters an incandescent truth about this startlingly novel way of conducting our economic affairs: "For the first time in human history men had come upon a way of producing wealth in which the good fortune of others multiplied their own." Read that one again, for it is the basic axiom of the free market economy, so fundamental that it is overlooked by friend and foe alike. Lippmann continues: "For the first time men could conceive a social order in which the ancient moral aspiration for liberty, equality, and fraternity was consistent with the abolition of poverty and the increase of wealth" (*The Good Society,* pp. 193–94).

This was the social order originally known as Classical Liberalism, built around the conviction that there is an inviolable essence in each person, which it is the function of the Law to protect. When the Law is limited to the administration of justice by securing the life, liberty and property of all persons alike, then people are free to peacefully pursue their personal goals, each respecting the right of every other to do the same. This is the good society operating under the moral law, the only kind of society in which a complex division-of-labor economy can flourish.

There is a moral law whose mandates are binding on every one of us. The moral law within each person—his individual conscience—instructs us to "injure no man." It obligates us to work for justice and fair play in human affairs; to speak the truth in charity, keep our word and fulfill our contracts. This ancient code forbids murder, assault, theft, and covetousness. These are the most important items in any ethical code, so universal as to seem part of human nature itself, and so compelling that most of us acknowledge them as binding even while we fail to obey them.

There is not a separate ethic or set of moral principles trimmed or adapted to this group or that in society, even though our common speech seems to suggest this. It is improper, strictly speaking, to talk about "legal ethics," "medical ethics," "business ethics," or the like. Lawyers, doctors, businessmen are judged by the same moral law that applies to all the rest of us. Free-market rules of business fall well within the moral law; and individual businessmen, large as well as small—so long as they stick to their last—measure up at least as well as members of other trades and professions. Only when a government grant of privilege is obtained is a moral principle violated. But when this happens the violator is no longer a businessman. □

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BOOKS

In Denial: Historians, Communism, and Espionage

by John Earl Haynes and Harvey Klehr

Encounter Books • 2003 • 316 pages • $25.95

Reviewed by Richard M. Ebeling

The truth about the tragedy and brutality of the Soviet regime in Russia was available for all those with eyes to see and ears to hear for the entire 75-year history of communism in the U.S.S.R.

Former Gulag victims, Russian political defectors, ex-communists from Western countries who had a rude awakening when they actually visited the workers' paradise, and men and women who had at one time spied for Moscow in America—they all told their tales of the reality of socialism in practice. Nothing was hidden from either scholars or ordinary citizens who were willing to read and listen.

Since the fall of the Soviet Union in 1991, however, a number of formerly secret Soviet archives have been selectively opened for periods of time, allowing Russian and Western scholars to look directly into that country's history of horror. Among the documents partially made available have been some relating to Soviet espionage in Western countries, including the United States. Two American historians, Harvey Klehr and John Earl Haynes, have devoted their research to the activities of the Communist Party of the United States and its connections to and funding by the Soviet authorities in Moscow. Their two books on this theme are *The Secret World of American Communism* (1995) and *The Soviet World of American Communism* (1998).

Assisting these investigations into Soviet spying in America has been the release of the Venona papers—the U.S. intelligence code name for the intercepted messages and communications between Moscow and its agents in the United States. Haynes and Klehr summarized those documents in their book *Venona: Decoding Soviet Espionage in America* (1999).

What has been a surprising result of those revelations is the resistance by many American historians to admit and incorporate these new findings into their accounts of twentieth-century U.S. history and the place of communism in that story. This peculiar and pervasive phenomenon is critically evaluated by Haynes and Klehr in their new book, *In Denial: Historians, Communism, and Espionage.*

The plain fact is that a sizable majority of historians are on "the left" and view themselves that way. That is especially true among historians who have written on the Soviet Union, the Cold War, and the American Communist Party. Their sympathies have been with the ideas of social reform and revolution. They are either strongly antagonistic to capitalism or at least highly suspicious of a market-oriented society. With all its imperfections, for them the Soviet Union captured the ideal of a social order remade in the direction of "social justice." To admit the truths about the Soviet experience, as far as many of these historians are concerned, is to concede the debate to the forces of profit and human exploitation.

Hence, those historians resist admitting such things as the fact that Soviet totalitarianism was worse in its long-term effect than Nazi totalitarianism, if for no other reason than that it lasted so much longer and affected far more lives around the globe. In particular, they have been reluctant to admit the numbers of people killed by communism during the twentieth century—well over 100 million—even in the face of irrefutable evidence, including the type of documentation one finds, for example, in the excellent, multi-authored work, *The Black Book of Communism* (1999).

In Denial dissects the refusal of those historians to accept that the Communist Party of the United States (CPUSA) was heavily funded by and rigidly under the control and

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supervision of the Communist Party of the Soviet Union. They cling to the starry-eyed notion that the CPUSA was an independent force for social change in America, merely responding to and reflecting the vision of a better and more just world.

Likewise, they continue to resist the mutually reinforcing evidence of the Venona papers and the documents now available from the Soviet archives that hundreds of U.S. citizens knowingly participated in low- and high-level espionage in the years before, during, and after World War II. In particular, they have turned a blind eye to the facts about Julius and Ethel Rosenberg, who were executed for atomic spying, as well as those like Harry Dexter White, Alger Hiss, and Lauchlin Currie, high-placed government officials in the Roosevelt administration who supplied government documents to the Soviets or tried to influence U.S. policy in a pro-Soviet direction.

Why is there such resistance to admitting these facts? The authors do not examine that question in much detail. But a clue is offered in another book, Alan Bullock's *Hitler and Stalin: Parallel Lives* (1992), and is typical of the mentality that Haynes and Klehr discuss. Bullock says at one point that "The corruption at the heart of Nazi ideology lay in its ends. Domination, enslavement, extermination are evil in themselves and will corrupt any movement that pursues it. The corruption at the heart of Communist ideology lay in the means. Social justice, greater freedom and equality, an end to exploitation and alienation are noble, humane ends. What compromised them fatally were the inhuman methods employed to achieve them."

The blind spot comes from the inability to see that no system can be humane that wants to politically redistribute income, impose economic equality, and centrally plan what gets produced and supplied to whom. The pursuit of such ends must always result in coercive means, regardless of the label under which it is undertaken or the people in whose name it is done. Thus, Soviet communism was no less evil in its chosen ends than those pursued under the Nazi regime. □

Richard Ebeling is president of FEE.

Economics for Real People: An Introduction to the Austrian School

by Gene Callahan

Ludwig von Mises Institute • 2002 • 299 pages • $11.00 paperback

Reviewed by E. C. Pasour, Jr.

Gene Callahan's stated objective is to introduce the intelligent layman to the main ideas of the Austrian School, and I know of no close substitute for the book he has written. Logically organized and written in a witty and entertaining style, the book consists of four parts and two brief appendices.

Part I focuses on human action. Callahan uses the Robinson Crusoe model of an isolated individual alone on a desert island to explain basic economic concepts—including value, saving, time preference, capital, and uncertainty.

Part II describes the market process. When another person joins the island, the law of comparative advantage leads to specialization, the division of labor, and exchange. The author then expands the simple island economy to show the importance of money in exchange and in economic calculation. He emphasizes the role of the entrepreneur and explains why entrepreneurship plays so small a role in mainstream theory. Unlike the Austrians, mainstream economists emphasize equilibrium analysis in which all decisions are perfectly coordinated and there are no profit opportunities.

The distinction between mainstream and Austrian views of inflation and deflation comes out in the discussion of pitfalls in using price indexes to measure the "price level." Callahan explains why inflation is best viewed as a rapid increase in the money supply rather than an increase in consumer price index (or other price index), even though a price index is useful as long as it is taken as a rough approximation of changes in the value of money.

In Part III, "Interference with the Market," Callahan describes the calculation problem and explains why socialist planners

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could not do what they purported to do, even if all citizens were properly motivated as perfect socialist citizens. This is so because there cannot be market prices without markets, and there would be no resource markets if the government owned all resources. Government regulators in a market economy confront information problems similar to those facing socialist planners.

Frédéric Bastiat contended that in economic matters we should not judge solely by what is seen but also by what is not seen. Callahan follows Bastiat's dictum in explaining the effects of price fixing, including minimum wages and price ceilings, and drops in the stock market. He has the clearest explanation I have seen for why a fall in the stock market, as occurred in 2000–2001, is best viewed as a change in relative prices rather than a reduction in wealth.

The pitfalls of using "efficiency" criteria for resolving legal disputes and to justify interventionism are often ignored in economic analysis. Callahan shows that attempts to maximize "social utility" through nonmarket approaches, including the legal process, fail to recognize the importance of market prices and secure property rights in achieving the most productive pattern of resource use.

Callahan uses an ingenious metaphor involving a bus driver at the edge of a desert—too long to describe here—to explain the Austrian business-cycle theory. Credit expansion by the central bank and erroneous entrepreneurial expectations are the critical factors in explaining why modern economies tend to swing through boom times and recession.

Moreover, government regulation of market "excesses" is no panacea. In the attempts to correct alleged market failures—including unsafe products, externalities, inadequate investment by private firms in sports arenas, and path dependence—government "screwups" are just as pervasive and more difficult to correct than those of the market because of information and incentive problems.

Part IV, focuses on the political economy of the Austrian School. The author contrasts views of Ludwig Lachmann, F. A. Hayek, Ludwig von Mises, and Murray Rothbard to show the wide range of views held by key Austrian figures concerning the appropriate role of government. This discussion is closely related to the first appendix, which provides a short description of the history and development of the Austrian School.

The second appendix contrasts praxeological economics with mathematical economics. Callahan explains why the latter approach, though useful in the study of the equilibrium condition that markets may gravitate toward, is unable to capture the essence of human action—the logic of economic events.

I recommend this book to anyone interested in a highly readable, nontechnical presentation of the basic ideas of Austrian economics and an explanation of how it differs from "mainstream" economics. Although some of the topics could have been explained more completely in a longer book, the available space is used quite effectively. □

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State of the Union: A Century of American Labor

by Nelson Lichtenstein

Princeton University Press • 2002 • 336 pages • $45.00 hardcover; $19.95 paperback

Reviewed by Stanley Greer

The premise of Nelson Lichtenstein's book is that American workers and society as a whole benefit when employers are prohibited from making workplace-governance decisions on their own and must instead make such decisions jointly with a union selected by a majority of employees. It's the old wine of coercion poured into a new bottle.

For Lichtenstein, a history professor at the University of California, Santa Barbara, his vision of "industrial democracy" is superior to the system in which employers set pay and benefits for employees on an individual

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basis. But he doesn't bother to make a sustained argument for his position.

Instead, he dismisses views that differ from his own by employing a few loaded terms, and then moves on. For example, according to Lichtenstein, anyone who believes that state-authorized "industrial democracy" violates the freedom of contract of the minority of employees who do not wish to be unionized adheres to "an imaginary world of 'free labor' in which individual workers freely and equitably negotiate[] their pay and perks with those who hired them at . . . great corporations."

If free negotiation is a fantasy, then why, according to the U.S. Labor Department, was the overall employee turnover rate between September 2001 and August 2002 21.4 percent? This at a time when the national economy was struggling. The overwhelming majority of such turnover is voluntary on the employee's part. And "employee retention" through financial and other inducements is clearly a major concern for firms of all sizes with a wide array of workforces, as anyone can confirm in a few minutes on the Internet. In light of such facts, there is a strong case that it is those who claim that individual employees have no power vis-à-vis employers who are really living in an "imaginary world."

Lichtenstein also would have us believe that representative government in America is gravely threatened when an insufficient number of employees work under terms bargained by a union selected by a majority of their coworkers and endowed with exclusive bargaining power. Paraphrasing a 1915 speech by U.S. Supreme Court Justice Louis Brandeis, Lichtenstein insists that there can be "no more 'political' democracy in contemporary America . . . without an 'industrial democracy' that [gives] workers an actual participation in the governance of the firms for which they [work]."

The importance of "industrial democracy," however, is questionable to people who are not dyed-in-the-wool collectivists. As Howard Dickman pointed out 16 years ago in his meticulously argued *Industrial Democracy in America*, "the wholesale restructuring of private contractual relations through a political device like majority rule is a drastic and radical repudiation of another American tradition at least as old as democracy, namely freedom of contract. Legislatures have, to be sure, interfered with contractual freedom in America since colonial times. But the majority rule principle in labor law was unprecedented, in that it vested in some men the power to establish employment relations for other men, without their consent." Many workers prefer contractual freedom to the yoke of union-dominated "democracy," but the author isn't concerned about them.

Lichtenstein frets over the decline of unionization (at least in the private sector), but refuses to consider the possibility that 90 percent of today's American employees have opted for workplaces that do not conform to his vision of "democracy" because they find it irrelevant or even distasteful. Instead, he unconvincingly blames employer opposition to unions. That overlooks data showing that in Canada, where active employer opposition to unionization is severely restricted, organized labor's "market share" of private-sector employment plummeted by 30 percent between 1975 and 1999. Canadian private-sector unions are heading in the same direction as their U.S. counterparts, albeit not as rapidly.

Actually, not even Lichtenstein himself can consistently live with the vision of "industrial democracy" that he endorses. Federal labor law currently bars groups of workers from democratically making many decisions. For example, under the Norris-LaGuardia Act, no group of employees can vote to authorize the employer to fire any dissenting employee who wishes to belong to a union or pay dues to a union. Lichtenstein hails Norris-LaGuardia as a legislative milestone. This means that, in at least some cases, even he understands that a workplace decision isn't legitimate simply because it's made "democratically."

Collectivist thinking still reigns supreme in some provinces and two of its strongest bastions are organized labor and the ivory towers of academe. Nelson Lichtenstein com-

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bines the two. *State of the Union* is a predictably dreary book by someone who insists on believing that there is some great virtue in the coercion of our labor laws. But if you want to know what that thought-world is like, this book will suffice. □

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Living It Up: Our Love Affair with Luxury

by James B. Twitchell

Columbia University Press • 2002 • 448 pages • $30.95 hardcover; $14.00 paperback

Reviewed by Tom Welch

For centuries, luxury has connoted items available only to the elite few. Through scarcity and by statute (sumptuary laws), luxury was kept out of the hands of the masses. Since the Industrial Revolution, however, luxury has become attainable by the average consumer, and the desire for it is as prevalent as ever in today's culture. Typically, the pursuit of luxury is looked down on by cultural commentators, and even those who indulge in such pursuits often tacitly accept guilt. However, in *Living It Up*, James B. Twitchell, University of Florida professor of English and advertising, says of such criticism: not so fast.

The "democratization" of luxury since the nineteenth century has occurred at such a pace that luxury itself is constantly being redefined. A century ago indoor plumbing was considered a luxury; today lack of it is considered a mark of abject poverty. How do luxuries become necessities? Twitchell outlines the key role played by the much-maligned "early adopters." "They are willing and able," he says, "to pay the high first costs" and eventually make goods once considered luxurious affordable for the masses. Despite the grumblings of academic scolds, there is no doubt that such consumption has increased the quality of life for most everyone. "One would almost surely prefer to be poor today than upper middle class a century ago," notes Twitchell, quoting Paul Krugman in the *New York Times*. Beyond food and shelter, says Twitchell, all needs are cultural, not natural. While one may dispute his classification of psychological needs, his argument is illuminating. If people had lived by the reasoning of the critics of consumption, humans would never have advanced beyond subsistence level.

Such a defense certainly works for what Twitchell calls "technoluxe" items, whose benefits are tangible. But what of so-called "opuluxe": names such as Armani, Louis Vuitton, Tiffany, or Fendi, attached to objects whose functionality is comparable to their nonluxury counterparts but whose price may be several times higher? Twitchell readily asserts that those brands are purely marketing constructs. Continuing a theme from his earlier works, he establishes that the purpose of advertising is to attach meaning to objects. Consumers, for their part, knowingly buy the resulting image, not the product. While critics may point to such behavior as proof of the shallowness of our age, Twitchell scoffs at such ideas. "The balderdash of cloistered academics aside," he contends, "we did not suddenly become materialistic." Rather, as material comforts have increased, consumers have shifted their desires toward entire "experiences," rather than simply goods. For "opuluxe" items, buying itself has become the sought-after experience.

All this leads Twitchell to what he terms a "mild" defense of luxury. In finding meaning in luxury, people are granting to consumption the status enjoyed by religion in centuries past. "Materialism is not the opposite of spiritualism," he contends. "Materialism is what you spiritualize when you have lots of stuff." Money cannot buy happiness, Twitchell concedes—but poverty almost guarantees unhappiness.

As to the concrete benefits of this trend, those Twitchell cites fall more in the category of evils avoided. Societies focused on consumption, he says, will be too busy shopping to wage offensive war. As consumption

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choices create distinctive "tribes" of consumers, lines of ancestry and religion will slowly disappear. Better, remarks Twitchell wryly, to be mugged for your shoes than to be ethnically cleansed.

Unfortunately, the author's defense of the system that makes luxury consumption by the masses possible is lukewarm. Capitalism will continue to thrive, he acknowledges—but only until another system can "codify and satisfy" human needs and yearning. Twitchell notes that in our culture what you consume is more important than what you produce—but in doing so he glosses over the fact that production is the prerequisite of consumption. On the role that freedom has to play in all this, Twitchell is, alas, silent.

Twitchell's treatment of the subject of luxury is entertaining and, notwithstanding a few obscure literary references, generally unencumbered by an overly academic style. He meanders through a variety of destinations on the way to his conclusions: the tony shops and hotels of modern-day America; plague-stricken Holland during the seventeenth-century tulip-bulb craze; the boardrooms of French conglomerates that have cornered the "opuluxe" market by applying American marketing techniques to European luxury. But while providing some useful insights, usually of a sociological nature, his narrative lacks an appreciation of the economic and political aspects of his subject. □

Tom Welch is a writer who lives in Atlanta, Georgia.

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THE FREEMAN
Ideas On Liberty
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Why Are Economists So Misunderstood?

Here is a puzzle.

I'm at a social gathering that includes some doctors. One doctor is discussing a prescription drug for a particular ailment. I interrupt with a lengthy discourse on the medication, explaining that the doctor's understanding is faulty. He has misunderstood the most important applications of the drug. His analysis of the side effects is absurd. I patiently explain to the other bystanders that the doctor is simply wrong.

This scene, of course, has never occurred. And yet in many a social gathering I have heard doctors explain to me that the minimum wage is good for the poor; it raises their wages at no cost in reduced employment. I have had doctors patiently explain to me that my understanding of the energy market is faulty, that there is no competition there, simply the greed of big multinational oil companies that jack up the price of gasoline from time to time and only lower it to mask their sinister ability to exploit us.

So here's the puzzle. Why do doctors feel competent to contradict economists on economic matters while economists would never contradict doctors on medical matters?

There's a simple explanation. Doctors are more confident than economists in their ability to understand the world around us. Doctors feel that they hold the power of life and death. This induces a certain measure of self-esteem leading to the occasional intellectual overreach.

There may be something to this theory, but I doubt many doctors would contradict an engineer about the safety of a particular bridge or correct an astronomer's assertion on the identity of a particular constellation.

We are left with a more depressing conclusion. Doctors (and plenty of other folks) don't respect economists as credible sources of information on many economic topics. I used to think that this was the inevitable result of being a social scientist rather than a "real" scientist. No doubt the imprecision of economics has something to do with our relatively low standing in the eyes of the public relative to the practitioners of more reliable disciplines, such as physics and chemistry.

But lately I've started to wonder if there is a more fundamental misunderstanding at work. That misunderstanding is about the very essence of the field of economics. I've come to realize that most people, even intelligent, educated people, have not the faintest clue as to what economists do or what the discipline of economics has to contribute to an understanding of the world around us.

I got an inkling of the problem one time when on an airplane, the woman next to me asked what I did for a living. I mentioned that I wrote books on economics. Too bad my husband isn't here, she said. He loves books on the stock market. I wanted to reply that I was glad her husband had stayed home, given that I have no interest in books on the stock market. I held my tongue, but I

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learned a lesson that I have heard confirmed in subsequent conversations with even highly educated strangers—most people think economics has something to do with personal finance or the stock market. At best, non-economists think economics is all macro, dealing with GDP, interest rates, and the money supply. Most non-economists find these topics either intimidating or boring. No wonder that most people are unaware that economics has something to say about what Alfred Marshall called the "ordinary business of life." That side of economics, the micro side, the side that focuses on human behavior at either the individual level or in groups, has been dwarfed by the emphasis on financial news, interest rates, and the stock market.

You can see part of the problem when you mention the word "markets" to a non-economist. He immediately thinks of the stock market rather than the slightly surreal concept of economics where buyers and sellers are linked by prices.

What Is to Be Done?

So what can we do to give non-economists an idea of what economics is really about? The simple answer, of course, is to teach more people economics. But it's a Catch-22. If people have a preconception that economics is about financial matters and if people are either intimidated or bored to tears at the prospect of a lecture on finance, then this solution is unlikely to help. It's a little like the old "Saturday Night Live" skit about Smucker's jam. How do you market a product with such an unattractive name? With a name like economics, you know it must be fascinating!

A more attractive and practical answer is to pick a different name for the field, a name that gets away from that embedded term "economic," which reasonably enough, makes people think of financial matters. When strangers ask me what I do for a living, I've stopped saying that I teach economics. It's a conversation stopper unless you're talking to a fan of the stock market.

I'd prefer to say that I study human behavior. But most people assume that means psychology. So I now tell people I teach spontaneous order. Instead of ending the conversation, I usually get a follow-up question asking about spontaneous order. That gives me a chance to talk about the insights of Adam Smith's invisible hand and Hayek's discussion of how markets make use of information.

My idea of talking about spontaneous order is just one way to improve the reputation of what George Stigler called the queen of the social sciences. Many of you understand that economics is about more than just the stock market or interest rates. I'd like to hear from you about how you think economics might improve its image problem. E-mail me your suggestions (or send them to me c/o FEE). If any of them appeal to me I'll use them at cocktail parties and highlight them in a future column. □

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